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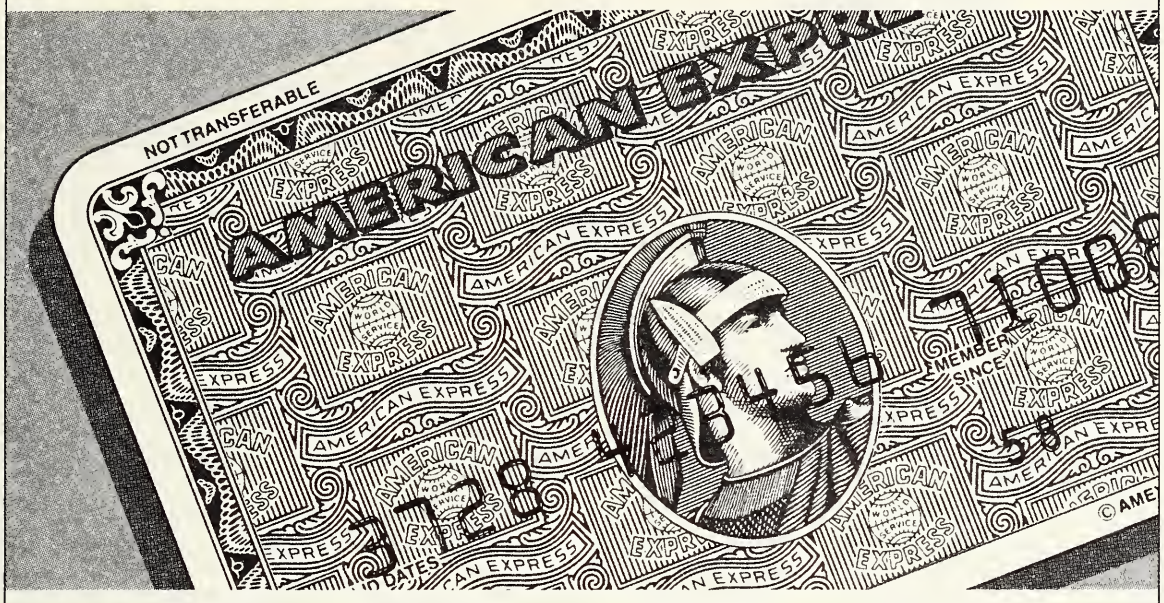

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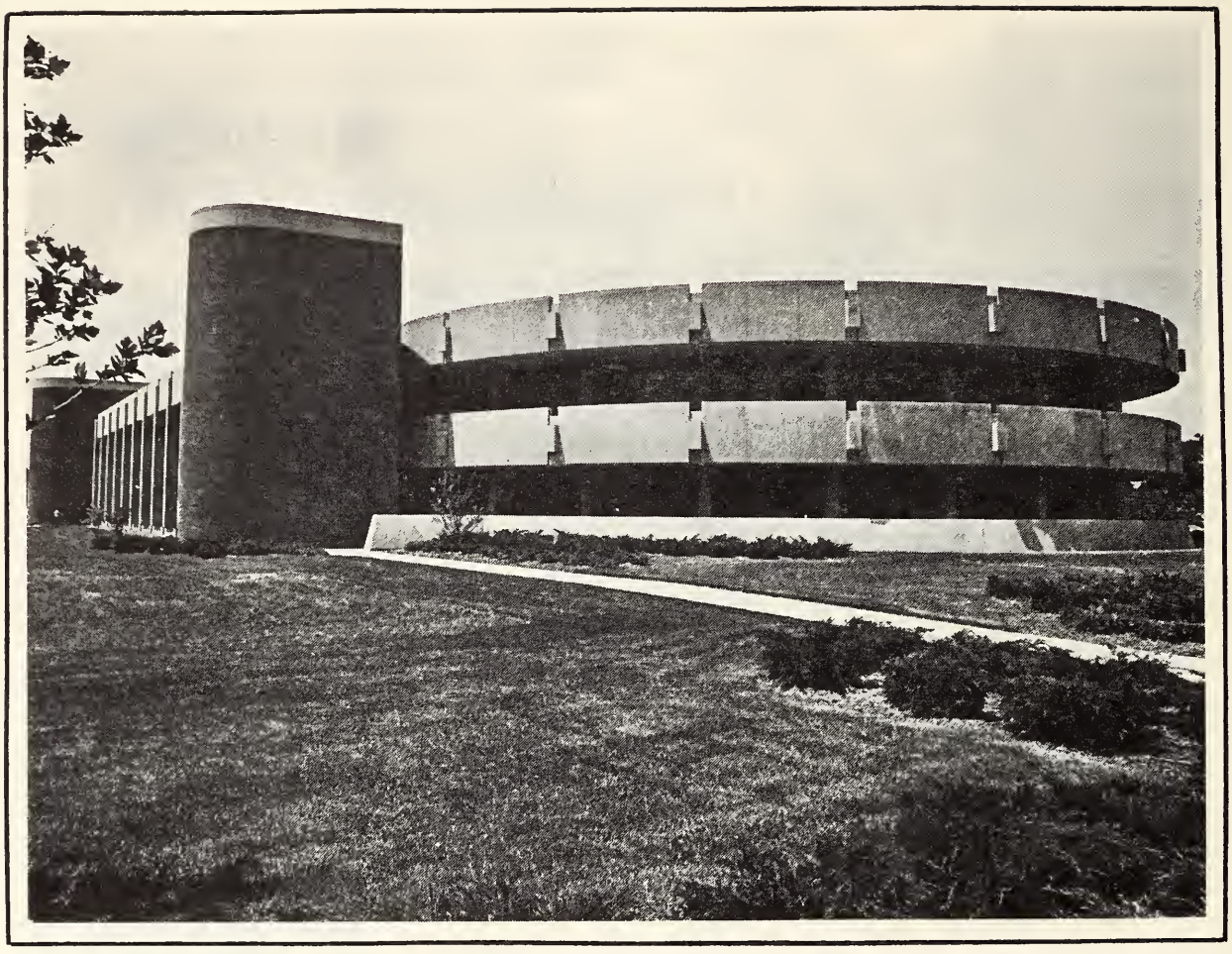

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This issue of the Indiana Law Review is dedicated to the memory of George W. Gard in appreciation of his special interest in, and devotion to, the Indiana Law Review and its staff for the past 23 years.

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Lawyer Ethics and the Corporate Employee: Is the Employee Owed More Protection Than the Model Rules Provide?

Kathryn W. Tate*

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I. Introduction

A corporation, as a legal entity, can be held criminally liable[1] for activities done by its employees on the corporation's behalf.[2] Since every employee[3] of the corporation[4] who has taken such actions could also find himself individually liable for his activities,[5] employees' personal

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1. *See* United States v. Bi-Co Pavers, Inc., 741 F.2d 730, 737 (5th Cir. 1984); United States v. Hilton Hotels Corp., 467 F.2d 1000, 1004 (9th Cir. 1972), *cert. denied*, 409 U.S. 1125 (1973). *See also* Upjohn Co. v. United States, 449 U.S. 383, 391 (1981) ("Middle-level—and indeed lower-level—employees can, by actions within the scope of their employment, embroil the corporation in serious legal difficulties . . . .")

2. Illegal activities done on a corporation's behalf are those that have been done to promote the corporation's interests (such as defrauding investors), rather than those directed internally with the purpose of victimizing the corporation (such as embezzlement).

3. While the term "employee" can include individuals working at all levels of the corporate structure, this Article is particularly concerned with the rights, interests and treatment of the employee who is outside the corporation's control group. *See* Upjohn Co. v. United States, 449 U.S. 383, 389 (1981) (observing that the term "control group" refers to upper-echelon management); 17 C.F.R. § 230.405 (1989) (defining "control," for purposes of federal securities registration, as meaning "the power to direct or cause the direction of the management and policies" of a corporation). The Article focuses on the lower level employee because such an individual is less likely to be sophisticated about protecting his rights and because such an employee has little power within the corporate structure. Thus, unless otherwise noted, "employee" will mean a lower-echelon worker.

4. While corporations can come in all sizes, the focus of this Article will be on corporations large enough to involve a hierachy of employees.

5. *See* Susnjar v. United States, 27 F.2d 223, 224 (6th Cir. 1928). Indeed, employees cannot avoid that personal liability by arguing that they were just doing their jobs. *See* 3A W. Fletcher, Cyclopedia of the Law of Private Corporations § 1348 (rev. ed. 1985); Note, *The Corporate Attorney-Client Privilege: Culpable Employees, Attorney Ethics, and the Joint Defense Doctrine*, 58 Tex. L. Rev. 809, 839 n.148 (1980). However if an employee was unaware of the illegal nature of his acts, he might lack the specific intent necessary to be found guilty under applicable criminal statutes. *See* United States v. Gold, 743 F.2d 800, 825 (9th Cir. 1984), *cert. denied*, 469 U.S. 1217 (1985); *Developments in the Law — Corporate Crime: Regulating Corporate Behavior Through Criminal Sanctions*, 92 Harv. L. Rev. 1227, 1259-60 (1979).

interests are also at stake during any criminal investigation of corporate activities.[6] Once a corporation learns from a government agency of the possibility that its activities could result in it and/or its employees being criminally charged,[7] the corporation will typically begin an internal investigation, using its attorney.[8] This means that it is very likely that potentially culpable employees will first be questioned concerning these activities by the corporation's attorney.[9] If an employee responds to the corporate attorney[10] in a manner which implicates him[11] personally in

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6. Besides the risk of criminal liability which is the focus of this Article, the employee may also feel at risk as to his job status. A company will often fire employees who have caused its problems. *See, e.g.*, UPI release (July 20, 1989) (reporting Delta Air Lines' admission of responsibility and firing of the Delta Flight 1141 flight crew before the completion of a National Transportation Safety Board investigation into the flight's crash); *infra* note 71 and accompanying text. The decision to deal harshly with an individual may depend on how important that person is to the corporation's successful endeavors. *Compare* S. FARBER & M. GREEN, OUTRAGEOUS CONDUCT 202 (1988) (discussing the deluge of offers to movie director John Landis, notwithstanding his indictment in the Twilight Zone case) *with id.* at 215-16 (comparing the treatment of Landis with that of other rank-and-file members of the Twilight Zone movie crew).

7. While the employee can also be at risk in a civil matter, the focus of this Article, unless otherwise noted, will be on criminal charges because the risk associated with such charges is the greatest for the lower level employee. This conclusion is reached not only because a conviction on criminal charges can result in imprisonment, but also because the low level employee is unlikely to be named as a civil defendant by a plaintiff hoping to secure a financial recovery.

8. *See generally* Black & Pozin, *Internal Corporate Investigations*, BUS. L. MONOGRAPHS [BLM] No. 20 (1988); Birrell, *The General Counsel at the Ramparts*, 4 CORP. COUNS. Q., No. 1, at 36 (1988); Bennett, Rach & Kriegel, *The Role of Internal Investigations*, 3 CORP. COUNS. Q., No. 3, at 67, 68-71 (1987); Morvillo, *Voluntary Corporate In-House Investigations—Benefits and Pitfalls*, 36 BUS. LAW. 1871 (1981); *infra* note 60 and accompanying text.

9. *See* Bennett, Rach & Kriegel, *supra* note 8, at 77 (noting that it is preferable that corporate counsel interview employees before they communicate with government agents); Stuntz, *Waiving Rights in Criminal Procedure*, 75 VA. L. REV. 761, 838 (1989) ("One finds very few white-collar criminal cases in the police interrogation chapters of criminal procedure casebooks. . . . [W]hite-collar defendants are far less likely to talk to police without a lawyer than are defendants in cases of street crime."). However, as this Article points out, it is possible that the lawyer who talks to law enforcement officials on behalf of the corporate employee may be as concerned with protecting the interests of the corporation, as with protecting those of the individual employee. *See generally infra* notes 159-61 and accompanying text.

10. Unless specifically noted, this Article will not differentiate between a corporation's inside, salaried attorneys and its outside, retained attorneys. For non-lawyer employees the risks of communication with any attorney are substantially identical so long as that attorney sees the corporation as the chief client or for other reasons has primary loyalty to the entity.

11. Throughout this Article, all pronoun references to "employee" will be indicated by masculine pronouns.

criminal conduct, he may have unknowingly lost the value of his fifth amendment privilege against self-incrimination.[12]

The employee's loss of that important right can occur because it is unlikely that corporate counsel will be acting as his personal attorney during that investigation; and therefore, his communications with corporate counsel will not be protected by either the attorney's ethical duty of confidentiality[13] or the attorney-client privilege.[14] Furthermore, because the employee's communications with the corporate attorney are not protected, the corporation could decide to reveal them to government officials.[15] Such a revelation could directly lead to the employee's criminal liability, as well as cause him to lose his license or right to practice his livelihood.[16]

Given these risks for a potentially culpable employee, representation at a very early point by an attorney who has the employee's interests as her[17] primary focus may be critical. Notwithstanding the employee's

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12. *See* U.S. CONST. amend. V.

13. *See* MODEL RULES OF PROFESSIONAL CONDUCT Rule 1.6 (1983) [hereinafter MODEL RULES].

14. *See, e.g.*, CAL. EVID. CODE §§ 950-54 (West 1966 & Cum. Supp. 1989); FED. R. EVID. 503 (Proposed Draft).

15. Nothing proscribes the corporation's revealing the employee's conversations to another so long as there was no individual attorney-client relationship between the corporate attorney and the employee. *See In re* Bevill, Bresler & Schulman Asset Mgmt. Corp., 805 F.2d 120 (3d Cir. 1986) (upholding order directing corporate president and corporation's counsel to respond to questions concerning their communications where corporation had waived its attorney-client privilege); *In re* Grand Jury Investigation, 599 F.2d 1224, 1236 (3d Cir. 1979) (acknowledging that a corporation has the power to waive its attorney-client privilege and provide the government with its employees' statements); *supra* notes 13-14 and accompanying text; *infra* notes 36-40 and accompanying text. Such disclosures might be made in order to persuade the government not to prosecute the corporation. *See In re* Martin Marietta Corp., 856 F.2d 619, 623 (4th Cir. 1988), *cert. denied*, 109 S. Ct. 1655 (1989); *infra* notes 29, 70-71 and accompanying text. Thus, an employee's communications with corporate counsel could result in the effective loss of his privilege against self-incrimination. *See* Gorelick, *Structuring the Internal Investigation When a Corporation is Faced with Parallel, Civil, Criminal and Administrative Proceedings*, 3 CORP. COUNS. Q., No. 4, at 1, 7 (1987); *Developments in the Law — Privileged Communications*, 98 HARV. L. REV. 1450, 1630 (1985) [hereinafter *Privileged Communications*].

16. *See, e.g.*, 15 U.S.C. § 78*o*(b)(4) (1982) (authorizing the Securities Exchange Commission to censure, place limitations on, suspend or revoke the registration of any broker or dealer where there has been a violation of the securities laws); N. FRANK & M. LOMBNESS, CONTROLLING CORPORATE ILLEGALITY: THE REGULATORY JUSTICE SYSTEM 82 (1988) (noting that one sanction available to law enforcement officials is license suspension or revocation).

17. Throughout this Article all pronoun references to "attorney" and its synonyms (*e.g.*, "lawyer", "counsel", and "practitioner") will be indicated by feminine pronouns. For consistency in its references to attorneys, the Article will also use feminine pronouns in any reference to an attorney serving as a prosecutor.

need to receive such early, independent representation, it is unlikely that the lower-echelon employee will have such representation. First, the employee may not perceive the need for independent representation. Second, financial considerations may make the employee dependent on the corporation for representation "benefits."[18] Thus, it is likely that the employee's first contact with counsel will be with an attorney who is representing only the corporation's interests. Moreover, even assuming corporate counsel is also willing to provide individual representation to the employee, the probable existence of conflicts of interest between the employee and his corporate employer and the relative power imbalance between them can result in the employee's interests being overshadowed.[19] Additionally, the employee would also suffer if, when he finally has separate representation, that attorney's loyalty is adversely affected because of influence by the corporation, such as by inappropriate control and payment of her fee.[20]

This Article examines an employee's vulnerability in contacts with corporate counsel and from inadequate representation during the pre-indictment investigation period in light of an attorney's ethical duties under the Model Rules of Professional Conduct ("Model Rules" or "Rules").[21] The investigation period has been chosen as a focus because during this time frame the ethical rules governing lawyers are the only constraint on an attorney's manner of representation, as well as the only control on whether that representation adversely affects others, including those contacted on a client's behalf.[22] Part II will first provide further

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18. *See infra* notes 152, 188 and accompanying text.

19. *See infra* notes 131-36, 159-62 and accompanying text.

20. *See infra* notes 191, 196-99 and accompanying text.

21. *See generally* MODEL RULES, supra note 13. The Model Rules were chosen as the focus for this Article because they represent the latest formulation of what an attorney's ethical duties are. Moreover, approximately 29 states have adopted these Rules, in whole or part, *see* [Manual] Law. Man. on Prof. Conduct (ABA/BNA) 01:3-4 (1989), in preference to continued adherence to the earlier drafted Model Code of Professional Responsibility. *See generally* MODEL CODE OF PROFESSIONAL RESPONSIBILITY (1981) [hereinafter MODEL CODE].

22. *Cf.* United States v. Turkish, 470 F. Supp. 903, 908 (S.D.N.Y. 1978) (observing that prior to indictment, the only ones who are in a position to alert individuals to their need for separate representation are the attorney retained on a multiple representation basis and the prosecutor); Philadelphia Bar Ass'n Prof. Guidance Comm., Op. 88-37 (1989) (digested in 5 Law. Man. on Prof. Conduct (ABA/BNA) 68 (1989)) (advising that attorneys should try to discover potential conflicts early in the representation and to promptly resolve any such conflicts by voluntary withdrawal or judicial determination); Tennessee Ethics Comm., Formal Op. 86-F-104 (1986), *reprinted in* II Nat'l Rep. on Legal Ethics and Prof. Resp. (U. Pub. of Am.) Tn:Op:8, 10 (1987) ("Resolving questions of conflicts of interest and impairment of independent professional judgment are primarily the responsibility of the lawyer undertaking the representation.").

background on how the nature and interests of the corporation, in contrast to those of an employee, can impact on that employee's legal representation. Part III then examines the conduct permitted by the Model Rules in an attorney's dealings with corporate employees. Three typical situations for an employee will be considered in this analysis because it is possible that an employee may experience one or all of these statuses during the investigative stage. These three possible situations are—1) an employee is unrepresented by separate counsel and is approached by the corporation's attorney for an interview; 2) an employee is represented by the corporation's attorney at the same time and on the same matter for which the attorney is representing the corporation, such as during an administrative or grand jury hearing; and 3) the employee at some point is provided represention by separate counsel who is being paid by the corporation.

Part III's analysis will demonstrate how employees are too often disadvantaged and their corporate employer's interests favored because the employee's conflicts of interest with or involving the corporate employer often go unrecognized or are minimized by both corporate and separate counsel. By exploring the duties presently imposed by the Model Rules, this Article concludes that both the corporation's attorney and an employee's separate counsel should have a greater duty to protect the employee's interests than the Rules currently mandate. In this regard Part IV presents several proposals for clarifying and strengthening the Model Rules and their comments. Adoption of these proposals would emphasize more clearly an attorney's responsibilities to identify conflict of interest situations both to herself and to an employee, and either to provide critical information to the employee or to secure his informed consent at various key junctures which could affect his interests.[23]

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23. As will be discussed, there are a number of instances that would require the employee's consent in the relationship between him and his attorney under the Model Rules. For example, the employee will need to give consent if his attorney's representation of his interests is in conflict with the interests of other clients. *See* MODEL RULES, *supra* note 13, Rules 1.7, 1.9(a); *infra* notes 118-19, 123 and accompanying text. Consent is further required if the representation conflicts with the lawyer's personal interests. *See* MODEL RULES, *supra* note 13, Rule 1.7(b); *infra* notes 119, 123, 211-13 and accompanying text. The employee's consent is also required if his attorney is being paid by another, such as the corporation. *See* MODEL RULES, *supra* note 13, Rule 1.8(f); *infra* note 198 and accompanying text. Moreover, the employee's attorney normally cannot use his confidences without his consent. *See* MODEL RULES, *supra* note 13, Rule 1.6(a); *infra* note 48 and accompanying text. This is so especially if such use would operate to the employee-client's disadvantage. *See* MODEL RULES, *supra* note 13, Rule 1.8(b); *infra* notes 174-76, 179 and accompanying text. This prohibition on the use of a client's confidences without his consent usually continues even after employment has terminated. *See* MODEL RULES, *supra* note 13, Rule 1.9(b); *infra* notes 164-66 and accompanying text. In these consent

II. Characteristics and Interests of the Corporation and of Employees Which Affect an Employee's Legal Representation

Before analyzing the Model Rules applicable to an attorney's relationship with a corporate employee, this Section will review certain fundamental characteristics and interests concerning both the corporation as a legal entity and the employee within the corporate hierarchy. These points are essential to an understanding of how the corporate employee can be vulnerable to both his employer and his employer's attorney.

A. The Corporation: Its Operation and Legal Representation

The corporate form of business enterprise dominates the American scene. A corporation is more likely than other business forms to provide job opportunities for large numbers of employees, as well as to become or have the potential of becoming a very large and impersonal entity.[24] Although a statutorily created fictional person,[25] a corporation can conduct business in its own name with virtually all the powers of a natural person.[26] However, each corporate organization shares the common feature that "real" people must underlie every aspect of the corporation. Every decision and every act must be performed by some individual.[27] Thus, the nature of the corporation and its method of operation cause the entity to have a commensal relationship with its employees.

Because both the corporation and the individuals who act on the corporation's behalf can be held criminally liable,[28] the corporation will want to demonstrate, if possible, that the activities conducted by the individuals were unauthorized so that it may escape liability or gain

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situations which are critical for an employee, this Article proposes the Model Rules be amended to provide more stringent guidelines for securing the employee's consent. *See generally* Part IV *infra*.

24. *See generally*, R. Clark, Corporate Law § 1.1 (1986); H. Henn & J. Alexander, Laws of Corporations and Other Business Enterprises § 1, at 1-6 (1983).

25. *See* H. Henn & J. Alexander, *supra* note 24, § 78; Jonas, *Who is the Client?: The Corporate Lawyer's Dilemma*, 39 Hastings L.J. 617, 617 (1988).

26. *See* Model Business Corp. Act § 3.02 (1984); H. Henn & J. Alexander, *supra* note 24, § 79. Corporations, however, cannot appear in most courts unless they are represented by an attorney. *See* Simbraw, Inc. v. United States, 367 F.2d 373 (3d Cir. 1966); Flora Constr. Co. v. Fireman's Fund Ins. Co., 307 F.2d 413 (10th Cir. 1962), *cert. denied*, 371 U.S. 950 (1963). Further, corporations do not have a fifth amendment right against self-incrimination. *See* Braswell v. United States, 487 U.S. 99 (1988).

27. *See* Upjohn Co. v. United States, 449 U.S. 383, 391 (1981) (recognizing that employees at all levels can take actions which can bind the corporation); Model Rules, *supra* note 13, Rule 1.13(a) & comment, para. 1 ("An organizational client . . . cannot act except through its officers, directors, employees, shareholders and other constituents.").

28. *See supra* notes 1, 5 and accompanying text.

leniency.[29] The existence of these corporate realities—that individuals must act for the corporation and that those individuals can be the corporation's scapegoat—provide the bases for perennial potential conflicts of interest between corporate employees and the corporation.

When a legal crisis occurs, it is also axiomatic that a corporation will have substantially more power, knowledge and resources to protect its rights and interests than does the typical lower-echelon employee of that corporation. In response to a crisis, the corporation will likely secure legal advice at an early point.[30] The attorney retained by the corporation for that purpose owes her loyalty solely to her client, the entity.[31] Model Rule 1.13 clearly identifies that a practitioner who is hired by a corporation to provide legal representation takes on the entity as her client.[32] The attorney is to exercise her independent professional judgment solely for the corporation and not for those who comprise the entity, such as its shareholders, directors, or employees.[33] Moreover, the corporate at-

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29. *See* United States v. Bernstein, 533 F.2d 775, 788 (2d Cir.) (observing that a corporation could advance a defense that an employee had acted ultra vires on his own), *cert. denied*, 429 U.S. 998 (1976); *U.S. Dep't of Justice, Principles of Federal Prosecution*, Part D (Entering into Plea Agreements), Part F (Entering into NonProsecution Agreements in Return for Cooperation) (1980); Fox & Romano, *How Corporate General Counsel Should Deal with a Federal Criminal Investigation*, 13 A.L.I.-A.B.A. COURSE MATERIALS J. 63, 73 (Aug. 1988) (noting that the federal government will be lenient when a corporation admits its guilt and enters into a plea bargain at an early point); Cohen, *With Signed Checks, Formal Guilty Plea, Drexel Ends Ordeal*, Wall St. J., Sept. 12, 1989, § A, at 3, col. 4 (reporting that Drexel Burnham Lambert pled guilty to lesser charges to avoid an indictment on racketeering offenses); Nat'l L.J., Sept. 25, 1989, at 6, cols. 1-2 (noting that even after Drexel Burnham Lambert's guilty plea, "[t]he company is continuing to cooperate with the government in the pending case against [Michael] Milken").

30. *See* Bennett, Rach & Kriegel, *supra* note 8, at 70-71; Fox & Romano, *supra* note 29, at 72.

31. *See* MODEL RULES, *supra* note 13, Rule 1.13. When the Model Rules were adopted in 1983, this representational focus on the entity was made mandatory for the first time. The former Model Code had had no mandatory requirements, or Disciplinary Rules, covering organizations specifically. Two of the Model Code's aspirational statements, known as Ethical Considerations, had discussed entity relationships briefly. *See* MODEL CODE, *supra* note 21, EC 5-18, -24. Model Rule 1.13 was the organized bar's recognition of the change in the nature of legal practice, from a profession which historically had dealt mostly with individuals who might need legal assistance to one where many practitioners deal only with organizational clients and their constituents. *See* Kutak, *A Commitment to Clients and the Law*, 68 A.B.A.J. 804, 805 (1982). *See also* Pope, *Two Faces, Two Ethics: Labor Union Lawyers and the Emerging Doctrine of Entity Ethics*, 68 OR. L. REV. 1, 1 (1989) ("Two out of three attorneys spend most of their professional time working for organizational clients.").

32. *See* MODEL RULES, *supra* note 13, Rule 1.13(a); *accord*, Westinghouse Electric Corp. v. Kerr-McGee Corp., 580 F.2d 1311, 1318 (7th Cir.), *cert. denied*, 439 U.S. 955 (1978).

33. A corporation's constituents would include its directors, officers, employees, and shareholders. *See* MODEL RULES, *supra* note 13, Rule 1.13(d) & comment, para. 1.

torney may not also provide representation to any of the constituents in their individual capacities if her loyalty to the corporation would be compromised.[34]

By clarifying the loyalty focus of a lawyer retained or employed by a corporation, the drafters of the Model Rules hoped to help lawyers avoid becoming enmeshed in conflicting representations of both the entity and its constituents.[35] However, the theory that an attorney hired by a corporation to provide it representation has only the entity as a client is simple to understand but is not necessarily easy for the attorney to implement, nor is it a theory non-lawyers necessarily comprehend without explanation.

In practice an attorney must deal with the entity's constituents because communication both by the attorney to the corporation and vice versa must be handled with individuals who are not themselves the client. Any communications between the attorney and the corporation's employees concerning the legal crisis will be protected from disclosure to outsiders by both the attorney's ethical duties to her corporate client[36] and the attorney-client evidentiary privilege.[37] However, the individual employees who provide such communications may not appreciate that in the course of her representation of the corporation, the attorney may share their information with those higher up in the organization.[38] They may also not realize that the corporation may decide it is in its interest to reveal those communications to outsiders, such as governmental authorities,[39] and that, absent an individual attorney-client relationship with the employee, it will be solely within the corporation's perogative, and not that of the employee, to consent to or withhold use of such confidential information.[40]

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34. *See id.* Rule 1.13(e).

35. *See* Bowman, *The Proposed Model Rules of Professional Conduct: What Hath the ABA Wrought?*, 13 PAC. L.J. 273, 308 (1982); Ehrlich, *Common Issues of Professional Responsibility*, 1 GEO. J. OF LEGAL ETHICS 3, 10 (1987); Hazard, *Rules of Legal Ethics: The Drafting Task*, 36 REC. N.Y. CITY B. A. 77, 82 (1981).

36. *See* MODEL RULES, *supra* note 13, Rule 1.6; *id.* Rule 1.13 comment, para. 3.

37. *See* Upjohn Co. v. United States, 449 U.S. 383 (1981) (questionaires completed by employees at the request of corporate counsel as part of an internal investigation were protected by the attorney-client privilege).

38. *See* 1 G. HAZARD & W. HODES, THE LAW OF LAWYERING: A HANDBOOK ON THE MODEL RULES OF PROFESSIONAL CONDUCT 236 (1988) [hereinafter HAZARD & HODES] (observing that unless employees are warned concerning the corporate attorney's representational focus, they may unwittingly confide in her to their detriment); MODEL RULES, *supra* note 13, Rule 1.13(b).

39. If the corporation chooses to waive its attorney-client privilege, the information may be turned over to government agency personnel or prosecutors in exchange for leniency toward the corporation. *See supra* notes 15, 29 and accompanying text; *infra* note 71.

40. *See In re* Bevill, Bresler & Schulman Asset Mgmt. Corp., 805 F.2d 120 (3d

B. The Dual Roles of a Corporate Employee and His Legal Representation

The creation of the corporation with an independent legal status has made the status of employees working for such entities legally complicated. Because the corporation cannot act for itself, an individual who becomes a corporate employee virtually takes on an additional identity, whose role is to perform service on behalf of his employer.[41] Different rules of law may apply depending on whether the person is in his individual role, or is in the role of corporate employee. Thus, the rights and interests that the person who is a corporate employee may have or can assert will differ depending on which role he is playing at a particular point in time.[42] Significantly, an employee cannot assert a fifth amendment privilege on behalf of the corporation,[43] but he can "take the fifth" if he is asserting the privilege personally.[44]

The typical lower-echelon employee has probably had limited experience with legal matters.[45] He may be aware of certain broad categories

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Cir. 1986) (corporate officer could not prevent the disclosure of communications with corporate attorney concerning corporate affairs where entity had waived its privilege); Diversified Industries, Inc. v. Meredith, 572 F.2d 596, 611 n.5 (8th Cir. 1977) (dictum) (noting the privilege ordinarily belongs to the corporation and an employee cannot prevent disclosure by claiming the privilege unless he sought personal legal advice from corporate counsel or that counsel acted as a joint attorney); Gallagher, *Legal and Professional Responsibility of Corporate Counsel to Employees During an Internal Investigation for Corporate Misconduct*, 6 CORP. L. REV. 3, 9-10 (1983) (observing that the corporation can waive its privilege and provide the government with a corporate official's statements).

Besides the employee's inability to prevent the revelation of the information he has provided the corporation, he may not even be able to gain access to the interview notes maintained by corporate counsel. *See* Memorandum of Law in Support of Defendant's Motion for New Trial at 25-26, United States v. Jones, No. 88 Cr. 824 LBS (S.D.N.Y., filed May 13, 1989) (stating that corporate counsel who had represented the defendant-employee before her indictment had refused to provide the employee's trial attorney with the notes made at the time of the defendant's preparation for her grand jury testimony). *But see In re* Martin Marietta Corp., 856 F.2d 619 (4th Cir. 1988) (ruling that a corporation must turn over employee statements to an employee because the attorney-client privilege was not available to the corporation after it made disclosures to the government), *cert. denied*, 109 S. Ct. 1655 (1989).

41. *See In re* FMC Corp., 430 F. Supp. 1108 (S.D.W. Va. 1977) ("Although a corporation necessarily acts through its agents and employees, those same agents and employees retain their separate identities."). *See generally* RESTATEMENT (SECOND) OF AGENCY §§ 2(2) & comment d, 220(1) & comment g (1958).

42. This principle underlies the law of agency, that when the corporate employer consents to having the employee act on its behalf, the employee's activities in the course of his employment become those of the employer. *See generally* RESTATEMENT (SECOND) OF AGENCY §§ 1, 7, 140 (1958).

43. *See* Braswell v. United States, 487 U.S. 99 (1988).

44. *See* U.S. CONST. amend. V.

45. Legal advice concerning divorce or probate matters would be the most common type of prior experience such a person might have had with lawyers.

of criminal behavior,[46] but he may not appreciate that specific activities, perhaps ones even encouraged by his superiors, can cause him to be criminally liable.[47] His contacts with lawyers have probably also been limited, and his impressions of attorneys and their roles may be influenced by heavy doses of TV drama-watching. Like most lay people, he will no doubt believe that the cornerstones of a relationship between an attorney and a client are loyalty and confidentiality by the attorney.[48] Thus, an employee would probably say that if he needed an attorney, he would expect her to "go to bat" for him and to keep secret anything she was told.

An employee will typically have a certain amount of personal commitment to his employer.[49] He will therefore identify with the corporation and presume that both his actions and those of the corporate attorney advance both their own and the corporation's best interests. An employee's feelings of loyalty to his corporate employer would also be intertwined with some feelings of apprehension in his relationships with his job superiors. Part of that apprehension would arise directly from a concern about retaining his employment.[50] Thus, if his supervisor asked

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46. He would no doubt be aware that activities such as assault, driving while intoxicated, murder, and fraud are illegal, without knowing specific details about the elements of those crimes.

47. For example, until 1987 stock parking was not considered a crime by the brokerage industry nor did prosecutors take criminal enforcement action against parking except when it masked more significant violations of the securities laws. *See* Bialkin, Baio & Schneier, Counseling the Client in Enforcement Inquiries: The Criminalization of "Parking," U. San Diego 15th Annual Securities Regulation Institute (Jan. 1988) (unpublished manuscript); Sontag, *Anatomy of Two Cases*, 11 Nat'l L.J., Sept. 4, 1989, at 1, col. 1, 31, col. 3.

48. *See What America Really Thinks about Lawyers*, Nat'l L.J., Aug. 18, 1986, at S-1, S-3 (finding that 38 percent of those polled felt that the most positive aspect of lawyers was that "[t]heir first priority is to their clients"). For the source of the attorney's duties of loyalty and confidentiality, see ABA Comm. on Ethics and Professional Responsibility, Informal Op. 1476 (1981) ("Among a lawyer's foremost responsibilities are fidelity to a client and preservation of confidences and secrets of a client."); MODEL RULES, *supra* note 13, Rule 1.7 comment, para. 1 ("Loyalty is an essential element in a lawyer's relationship to a client."); *id.* Rule 1.6 comment, para. 4 ("A fundamental principle in the client-lawyer relationship is that the lawyer maintain confidentiality of information relating to the representation."); G. HAZARD, ETHICS IN THE PRACTICE OF LAW 20, 33 (1978) (observing that two key tenets of a lawyer's professional conduct are keeping a client's confidences and loyalty in the attorney-client relationship).

49. The extent of that loyalty is related to the employee's ability to participate in the organization and the level of his job satisfaction. *See generally* Trombetta & Rogers, *Communication Climate, Job Satisfaction and Organization Commitment*, 1 MGMT. COMM. Q. 494, 508-11 (1988).

50. *See* O. KAHN-FREUND, LABOUR AND THE LAW 6 (2d ed. 1977) (observing that the relationship between the employer and an employee is one "between a bearer of power

him to do a particular task or suggested a certain method of working, he would likely conform to those requests, and he might do so even though he had a concern about its legality.[51] Similarly, if his superior asked him to cooperate with an attorney who was going to interview everyone in his department, the employee would be inclined to cooperate partly out of loyalty and partly out of apprehension about his job tenure.[52]

The employee's general understanding about the attorney-client relationship would not necessarily cause the employee who has contact with the corporate attorney to appreciate the exclusive focus of that attorney's loyalty.[53] That vague knowledge also would not forewarn the employee that his communications with the attorney would not be protected at his behest.[54] In addition, his inclination to cooperate with the attorney because of his feelings of both loyalty and fear would make him vulnerable to suggestions by the attorney which might not be in

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and one who is not a bearer of power"); Gould, *The Idea of the Job as Property in Contemporary America: The Legal and Collective Bargaining Framework*, 1986 B.Y.U. L. Rev. 885, 892 (discussing the importance of the job for the average American); Tobias, *Current Trends in Employment Dismissal Law: The Plaintiff's Perspective*, 67 Neb. L. Rev. 178, 181-82 (1988) (same); Solomon, *Managing*, Wall St. J., Sept. 22, 1989, § B, at 1, col. 1 (noting that many employers are abusive of employees).

51. *See* Toole v. Richardson-Merrell, Inc., 251 Cal. App. 2d 689, 695-96, 60 Cal. Rptr. 398, 404 (1967) (laboratory technician protested assignment to falsify test results of a new drug on monkeys, but complied after being told: "He . . . is higher up. You do as he tells you and be quiet."); Solomon, *Managing*, Wall St. J., Sept. 22, 1989, § B, at 1, col. 1 (noting that employees rarely complain about supervisors' excesses because of fear they will be fired or humiliated); *60 Minutes: Harm's Way* (CBS television broadcast, Oct. 8, 1989) (following his conviction for his part in Genisco Technology Corp.'s fraudulent manufacturing and testing of military hardware, one employee told correspondent Mike Wallace that his submission of fraudulent data "had something to do with the pressure that was exerted by my superiors."). *See also* Kempton, *Drexel, Lies and Lisa Jones' Fate*, Newsday, Sept. 27, 1989, at 6 (observing after the sentencing of Lisa Jones, the Drexel Burnham Lambert trading aide convicted for perjury, that her repeated lies were possibly based on loyalty).

52. The apprehension would arise because an employee's refusal to cooperate by answering questions could be grounds for terminating his employment on the basis of breach of duty of loyalty. *See* Black & Pozin, *supra* note 8, § 4.03[2], at 4-7.

53. The employee is likely to see himself as a member of the corporate team, and to expect the team attitude from all other corporate agents as well. The employee therefore will be apt to see himself as part of the corporation and will view the corporate attorney as "our" attorney. This would be even more likely if corporate counsel is also an employee.

54. For examples of cases where a corporation has waived its attorney-client privilege and employees have been powerless to protect their statements, see *In re* Bevill, Bresler & Schulman Asset Mgmt. Corp., 805 F.2d 120 (3d Cir. 1986); United States v. Bartlett, 449 F.2d 700 (8th Cir. 1971), *cert. denied*, 405 U.S. 932 (1972); United States v. DeLillo, 448 F. Supp. 840 (E.D.N.Y. 1978); *In re* Grand Jury Proceedings, 434 F. Supp. 648 (E.D. Mich.), *aff'd*, 570 F.2d 562 (6th Cir. 1977).

his personal interest.[55] One such suggestion might be that the employee not contact government prosecutors, when such a contact might in fact benefit the employee because it could result in his securing immunity in exchange for his testimony against the corporation.[56] Thus, the ordinary employee is not likely to comprehend the attorney's role fully and because of the pressures on the employee to cooperate, he is likely to give the attorney information without realizing that the corporation can use it to his detriment and for its own interests.[57] He is also likely to go along with perceived requests made by either his superiors or the corporate attorney without necessarily considering whether his interests would be better served by less cooperation.

In order to prevent misunderstandings about the nature of a corporate attorney's relationship with employees, many commentators believe that such an attorney should clarify for these constitutents at a very early point that her role is as the corporation's attorney.[58] However, while the Model Rules took a step in the right direction in recognizing the significance of corporate representation as a form of practice and providing some ethical guidance, the drafters did not fully comprehend and deal with the complexities of legal representation on behalf of clients by attorneys whose practices involve entity and/or constituent representation. Therefore, one key deficiency is that Model Rule 1.13 does not require that employees be given an early warning about the corporate attorney's role.[59] The next Section will further examine this and other deficiencies in the Model Rules as they affect the legal representation available to employees.

III. Employee Vulnerability During the Investigative Stage

When there is corporate misconduct, employees will have information about or will have been involved in that misconduct. Once a corporation

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55. Another reason the employee would be open to possible manipulation by the attorney is that he might view her as an expert to whom he should give a certain deference. *See* Address by Geoffrey C. Hazard, Corporate Counsel Institute (Oct. 12, 1988), *quoted in* 4 Law. Man. on Prof. Conduct (ABA/BNA) 351 (1988) ("You [corporate counsel] have a responsibility not just to the client but to the people that you're working with. They see you as a specialist in a body of information that's not accessible to them."); Wasserstrom, *Lawyers as Professionals: Some Moral Issues*, in The Legal Profession: Responsibility and Regulation 306, 307-08 (G. Hazard & D. Rhode 2d ed. 1988) (concluding that the layperson is dependent on the attorney as an expert, resulting in an unequal relationship).

56. *See infra* notes 84-91, 128, 131-32 and accompanying text.

57. *See* 1 Hazard & Hodes, *supra* note 38, at 236 ("Unless warned, [employees] may confide in the lawyer even when their interests diverge from those of the entity.").

58. *See, e.g.*, G. Hazard, *supra* note 48, at 50; C. Wolfram, Modern Legal Ethics § 13.7.2, at 736 (1986); Bennett, Rach & Kriegel, *supra* note 8, at 74-75, 79; Gallagher, *supra* note 40, at 13.

59. *See infra* notes 72-83 and accompanying text.

learns that it is being investigated for possible violations of the law, it will hire counsel, or possibly use its in-house counsel, to conduct an internal investigation to ascertain if there has indeed been any corporate illegality.[60] It is during this internal investigative stage that an employee might first have contact with an attorney concerning his role in the conduct under examination, and his contact can be with one or both of two types of attorneys.[61] The first type the employee may hear from is the corporation's own lawyer, who may or may not be willing and able to also represent the employee's interests.[62] However, the employee may also secure or be referred to separate counsel.[63]

The Model Rules provide different guidelines for an attorney concerning her dealings with an employee depending on whether the attorney and the employee are in a client or non-client relationship. This Section will analyze the Rules applicable to both corporate and separate counsel in their relationships with employees and, by that analysis, show how the employee who may have liability exposure can be vulnerable to abuse during the investigative stage no matter with which attorney type he is dealing.

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60. It is most likely that an attorney will be used to conduct the corporation's internal investigation so that claims of attorney-client privilege and work product doctrine can later be made concerning the gathered information. *See* Upjohn Co. v. United States, 449 U.S. 383 (1981) (attorney-client privilege and work product doctrine apply to information gathered in internal investigation); *In re* Grand Jury Subpoena, 599 F.2d 504, 510 (2d Cir. 1979) (finding that documents arising out of internal investigation by corporate management were not within attorney-client privilege, while those resulting from second investigation by outside counsel were); Birrell, *supra* note 8, at 49. On the issue of the availability of such claims, especially when the corporation cooperates by providing information to government agencies, see Crisman & Mathews, *Limited Waiver of Attorney-Client Privilege and Work Product Doctrine in Internal Corporate Investigations: An Emerging Corporate "Self-Evaluative" Privilege*, 21 AM. CRIM. L. REV. 123 (1983); *Privileged Communications*, *supra* note 15, at 1650-59; Note, *Discovery of Internal Corporate Investigations*, 32 STAN. L. REV. 1163 (1980).

61. The employee could also have contact with a third attorney type, opposing counsel including a government prosecutor, but the duties of this third type of attorney are not the focus of this Article.

62. The corporation's attorney may also represent corporate employees if such dual representation will not violate Model Rule 1.7 on conflicts of interest. *See* MODEL RULES, *supra* note 13, Rules 1.13(e), 1.7; *infra* notes 112-19 and accompanying text.

63. The employee's separate counsel is most often an attorney to whom he has been referred by the corporation and who is often also paid by the corporation. *See* Douglas v. Los Angeles Herald-Examiner, 50 Cal. App. 3d 449, 462, 123 Cal. Rptr. 683, 690-91 (1975) (concluding that statute requiring employer to indemnify employee for expenditures arising out of job duties includes attorney's fees); Lester, *No Man is an Island: A Compendium of Legal Issues Confronting Attorneys When Individual Defendants Are Named in an Employment Litigation Complaint*, 20 PAC. L.J. 293, 308 (1989) (noting that most companies routinely pay for employees' attorney's fees); *infra* notes 137, 185.

A. The Corporate Attorney's Relationship and Duty Toward an Employee

The corporation's attorney will obviously need to talk to various employees in order to conduct an effective investigation.[64] When an employee is contacted by corporate counsel,[65] his relationship with her will differ depending on whether she approaches the employee only as an agent of the entity or offers him personal representation. Regardless of whether the corporate attorney represents the employee, the likelihood of his being disadvantaged by his dealings with her will depend on how clearly she recognizes the high probability that his interests and those of the corporation will differ, and how conscientiously she keeps his interests in mind as she provides representation to the corporation.

1. Situation 1: The Corporate Attorney Intends No Client Relationship with the Employee.—In many instances, the corporate attorney does not intend to enter an attorney-client relationship with any employee, but only plans to deal with employees in order to secure information needed in her representation of the corporation. The attorney knows from Model Rule 1.13(a) that the corporation, not the employees, is her client.[66] She will therefore plan her investigative interview strategy carefully so that her procedures will allow the corporation to claim that all her communications with the employees are protected by its attorney-client privilege.[67] She may have some concern about how willing the employees will be to talk with her, especially if they have committed the illegal acts.[68] If she uncovers any wrongdoing by employees during

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64. The attorney needs to deal with various employees because the "knowledge of pertinent legal facts, decisionmaking authority and legal responsibility—which are centralized in individual clients—may be widely dispersed among the officers, directors, and employees who compose a corporate client." *See* Note, *supra* note 5, at 824. *See also Upjohn*, 449 U.S. at 391 (recognizing that those in the corporation with information needed by corporate counsel may be middle-level and even lower-level employees).

65. It is axiomatic that any employee approached directly by corporate counsel has no separate representation at the time. If an employee had his own attorney, corporate counsel would not be able to communicate with that employee, absent the consent of the employee's counsel. *See* MODEL RULES, *supra* note 13, Rule 4.2, *quoted infra* note 92.

66. *See id.* Rule 1.13(a) & comment, para. 3.

67. At minimum, corporate counsel will follow two basic steps. First, corporate counsel will secure a properly worded retainer letter in which the corporation's board or chief executive officer requests the investigation in order to secure legal advice, perhaps noting that litigation is contemplated. *See* Birrell, *supra* note 8, at 50; Morvillo, *supra* note 8, at 1873. Second, counsel will take steps to maintain the confidentiality of communications between corporate employees and counsel. *See* Birrell, *supra*, at 52-53; Bennett, Rach & Kriegel, *supra* note 8, at 72-73.

68. An employee may have three principal reasons for being unwilling to talk to corporate counsel: the possibility of criminal liability, civil liability or firing. However,

the course of her investigation, she must report that information to corporate management.[69] Depending on the circumstances, the attorney may well recommend that the information gathered be used offensively, including sharing data with government officials[70] and disciplining employee-culprits immediately.[71]

Model Rule 1.13(d) provides some guidance to a corporate attorney in her dealings with an unrepresented employee.[72] The Rule instructs the

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the reason the employee may be most cognizant of is the threat of losing his job. *See* Note, *Discovery of Internal Corporate Investigations*, 32 STAN. L. REV. 1163, 1172-73 (1980); *supra* notes 50-52 and accompanying text.

69. *See* MODEL RULES, *supra* note 13, Rule 1.4 (requiring an attorney to keep her client informed so that the client can make knowledgeable decisions regarding the representation); Birdzell, *Ethical Problems of Inside Counsel*, BUS. L. MONOGRAPHS (BLM) No. 7, § 2.03, at 2-11 (1988) ("A lawyer has a general professional obligation to inform a client of information acquired in the course of representation and material to the client's affairs."). *See also* Spector v. Mermelstein, 361 F. Supp. 30 (S.D.N.Y. 1972) (lawyer held liable for failing to inform lender client of facts concerning the risk of a loan), *aff'd in part and remanded in part*, 485 F.2d 474 (2d Cir. 1973).

70. Corporations may feel pressure to cooperate with government agencies since those agencies with suspension/disbarment authority over the corporation's ability to do business often have policies favoring early disclosure of possible wrongful conduct. *See* Bennett, Rach & Kriegel, *supra* note 8, at 70, 86-89; Gorelick, *supra* note 15, at 2 & app. A. Such cooperation is viewed as evidence of a corporation's integrity and is often part of the agency's consideration concerning what administrative action, if any, would be warranted. *See* N. FRANK & M. LOMBNESS, *supra* note 16, at 53-55; Bennett, Rach & Kriegel, *supra*, at 86; Gorelick, *supra*, at 2 & app. A.

71. *See* Handler v. Securities and Exchange Comm'n, 610 F.2d 656 (9th Cir. 1979) (upholding consent decree by corporation which included agreement to conduct a full investigation into the securities violations alleged by the SEC and identification of those within the corporation against whom legal action should be instituted); CRIMINAL PRAC. & PROCED. COMM., ANTITRUST SECTION, ABA, HANDBOOK ON ANTITRUST GRAND JURY INVESTIGATIONS 89 (1978) (noting that in a criminal investigation "[i]t may benefit the employer to fire the employee for violating company policy respecting compliance with the antitrust laws") [hereinafter HANDBOOK ON ANTITRUST GRAND JURY INVESTIGATIONS]. Where government agencies expect early disclosure of corporate wrongdoing, *see supra* note 70, part of the disclosure expected is what disciplinary actions have been taken against the culpable employees. *See* Bennett, Rach & Kriegel, *supra* note 8, at 86-87; *cf.* Dornhecker v. Malibu Grand Prix Corp., 828 F.2d 307, 309 (5th Cir. 1987) (indicating, in sexual harrassment case, that prompt investigation and discipline of employee-culprits can preclude the employer's liability); Barrett v. Omaha Nat'l Bank, 726 F.2d 424, 427 (8th Cir. 1984) (same).

72. *See generally* MODEL RULES, *supra* note 13, Rule 1.13(d). The Rule does not use the term "unrepresented", but the conclusion that the Rule covers the corporate attorney's contacts with such an employee can be drawn from the fact that the attorney would not be dealing with the employee at all if he had separate counsel, absent his attorney's consent. *See id.* Rule 4.2, *quoted infra* note 92; *supra* note 65. Further, the comment for Model Rule 1.13(d) discussing what advice the corporate attorney should give to a corporate constituent with an adverse interest, such as an employee, says that

attorney to "explain the identity of the client when it is apparent that the organization's interests are adverse to those of the [employees] with whom the lawyer is dealing."[73] This language apparently permits the corporate attorney to not tell an unrepresented employee that the information he provides her could be used in various ways to his disadvantage, assuming the attorney does not know in advance that the particular employee she is interviewing is culpable. Thus, given the Rule's phrasing, the corporate attorney need not clarify her role for the employee until some later point when it is "apparent" that the corporation's interests and those of the employee are adverse.[74] Even when this apparentness has occurred, such as after the employee has revealed his role in the illegal conduct, the attorney only needs to advise the employee that a conflict exists, that she cannot represent him, that the discussion they have had is not privileged, and that he may wish to secure independent counsel.[75] Such information may be insufficient for an em-

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the attorney should say "that the lawyer cannot represent such constituent, and that such person may wish to obtain independent representation." *See id.* Rule 1.13 comment, para. 8. Such advice would obviously be unnecessary to an employee who was already represented, assuming the corporate attorney had permission from the employee's counsel to talk to the employee.

73. *See* MODEL RULES, *supra* note 13, Rule 1.13(d).

74. The Rule's comment even suggests that such an explanation is not always necessary. *See id.* comment, para. 9 ("Whether such a warning should be given by the lawyer for the organization may turn on the facts of each case."). *See also* Morvillo, *supra* note 8, at 1874 (observing that a corporate attorney has no obligation to stop an employee's confession of an illegality); Sullivan & Africk, *Outside Counsel's Role in Coordinating the Defense Effort*, 4 CORP. COUNS. Q., No. 4, at 47, 48 (1988) (commenting that warnings to employees are inappropriate where the corporation has been harmed and counsel's job is to obtain confessions from the culprit-employees).

75. These additional suggestions for discussion with an employee come from the Rule's explanatory comment. *See* MODEL RULES, *supra* note 13, Rule 1.13 comment, para. 8. However, the Rules make it clear that such a comment does not expand the duties required. *See id.*, Scope, paras. 1, 9. Arguably Rule 1.13(d) would not prevent the situation which occurred in W.T. Grant Co. v. Haines, 531 F.2d 671 (2d Cir. 1976), where the corporate attorney interviewed a regional sales director on whom the company had proof of fraud and against whom a lawsuit had already been filed. *See id.* at 672-73. The lawyer told the employee that the lawyer was representing the corporation and also that candor during the interview might clear his name. *See id.* at 675. The employee took a lie detector test apparently because he was told its results might affect whether he would be fired, even though the decision to terminate him had already been made. *See id.* Thus, while the employee knew the identity of the interviewing attorney's client, other information that might have affected his willingness to cooperate was withheld. Rule 1.13(d) by its terms requires no more than the information given this employee, and even the comment does not clearly tell a lawyer that she must tell the employee about the entity's decisions concerning that individual. *But see* 1 HAZARD & HODES, *supra* note 38, at 443 (1987) (Illustrative Case (c)) (concluding that the lawyer in *Haines* would have violated Rule 1.13(d) because he did not disabuse the employee of serious misunderstandings about the

ployee to appreciate that his confidences are unprotected or that separate counsel might use tactics in his defense that corporate counsel would not.[76]

In this regard, Model Rule 1.13(d) seems to set a different and lower standard of treatment for the corporate attorney's contacts with an unrepresented employee than does Model Rule 4.3 for other lawyers' contacts with unrepresented persons.[77] The latter Rule places an affirmative obligation on a lawyer to correct any misunderstanding an unrepresented individual may have about the lawyer's role "[w]hen the lawyer knows or reasonably should know" there is such a misunderstanding.[78] When an unrepresented person was contacted by a party's

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lawyer's role).

On the specific suggestion that the employee may want to get independent counsel, one commentator has observed that subsection (d) does not require the corporate attorney to explain why it might be advantageous to the employee to have separate counsel, although he feels such advice should be given. *See* Birdzell, *supra* note 69, § 2.03[2][c], at 2-15.

76. Model Rule 1.13 does not require, nor does its comment suggest, that a corporate attorney make clear to an employee that his communications are not confidential. *See* MODEL RULES, *supra* note 13, Rule 1.13 & comment; C. WOLFRAM, *supra* note 58, § 13.7.2, at 736. Moreover, the exercise of an employee's fifth amendment privilege against self-incrimination, the incentive to testify under a promise of immunity, and plea bargaining are all interests which separate counsel could pursue for the employee but on which corporate counsel would have a different perspective. *See* Birdzell, *supra* note 69, § 2.03[2][c], at 2-14 to -15.

77. *Compare* MODEL RULES, *supra* note 13, Rule 1.13(d) *with id.* Rule 4.3. *See also In re* FMC Corp., 430 F. Supp. 1108, 1111 (S.D.W. Va. 1977) (expressing approval of the ethically sensitive manner in which government attorneys approached corporate employees, in that they identified themselves as adverse counsel, told them the nature of the investigation, and instructed them that they could have counsel present for the interview); *In re* Milita, 99 N.J. 336, 492 A.2d 380, 384 (1985) (discipline ordered where an attorney failed to correct a guard's misstatement to an unrepresented witness about whom the attorney represented); Brown v. Peninsula Hospital Center, 64 App. Div. 2d 685, 407 N.Y.S. 2d 586, 587 (Sup. Ct. 1978) (concluding that attorneys for a hospital breached their ethical duty under Model Code DR 7-104(a)(2), governing contact with an unrepresented person, when they failed to inform a doctor whom the hospital produced as its representative that he had a potential conflict of interest with the hospital); *infra* notes 78-80 and accompanying text.

78. MODEL RULES, *supra* note 13, Rule 4.3 ("In dealing on behalf of a client with a person who is not represented by counsel, a lawyer shall not state or imply that the lawyer is disinterested. When the lawyer knows or reasonably should know that the unrepresented person misunderstands the lawyer's role in the matter, the lawyer shall make reasonable efforts to correct the misunderstanding."); *see In re* Milita, 99 N.J. 336, 492 A.2d 380, 384 (1985) (discipline ordered where an attorney failed to correct a guard's misstatement to an unrepresented witness about whom the attorney represented). Further, the definitions section of the Model Rules defines the phrase "reasonably should know" specifically to mean that "a lawyer of reasonable prudence and competence would ascertain the matter in question." *See* MODEL RULES, *supra* note 13, Terminology, para. 9.

In adopting its version of the Model Rules, Louisiana made the lawyer's duty under

attorney, the drafters of Model Rule 4.3 were concerned with whether any advice given by that attorney might be misperceived as disinterested.[79] They believed that "[s]uch a misperception might influence the unrepresented person to make concessions or acquiescences that could not otherwise be obtained."[80]

The likelihood that an individual may make concessions or acquiescences, because he misunderstands the role of an attorney and fails to appreciate that the attorney has no special loyalty to him or concern for his personal interests, is arguably much greater in the situation where a corporate attorney approaches an unrepresented employee than when an attorney who is a stranger approaches an unrepresented third person. The employee's misperception could occur because he may have had contact with the lawyer before in a nonadversarial situation.[81] His con-

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Model Rule 4.3 even more affirmative by providing: "A lawyer shall assume that an unrepresented person does not understand the lawyer's role in a matter and the lawyer shall carefully explain to the unrepresented person the lawyer's role in the matter." Louisiana Bar Rule 4.3, *quoted in* 2 G. Hazard & W. Hodes, *supra* note 38, App. 4, at LA:4. *See also* Virginia Legal Ethics Comm. Op. No. 905 (1987), *reprinted in* II Nat'l Rep. on Legal Ethics and Prof. Resp. (U. Pub. of Am.) Va:Op:8 (1988) (finding an attorney's contact with an employee of an adverse corporate party not improper so long as the employee had no authority to act or make decisions on behalf of the entity on the litigation subject and so long as the attorney disclosed his adversarial role to the employee).

79. The fact that the drafters of Model Rule 4.3 did not prohibit the giving of advice to an unrepresented person was a change from the Model Code. The Code had forbidden the lawyer from giving the unrepresented individual advice, other than the advice to secure an attorney if that person's interests might be in conflict with the lawyer's client. *See* Model Code, *supra* note 21, DR 7-104(a)(2). However, the Code gave no other guidance for this situation. *See id.*

The comment to Model Rule 4.3 does contain the suggestion that attorneys "should not give advice to an unrepresented person other than the advice to obtain counsel." *See* Model Rules, *supra* note 13, Rule 4.3 comment. However, even if an attorney felt free to give an unrepresented person advice under the Model Rules, she would be constrained by Model Rule 4.1 from giving false advice or otherwise making false statements. *See* ABA Comm. on Ethics and Professional Responsibility, Informal Op. 83-1502 (1983) (concluding that a lawyer's letter which threatened a lawsuit by his client if certain action was taken by the addressees was permissible because it made no false statements and provided the lawyer's opinion only from his client's perspective); Mississippi State Bar Op. 141 (1988), *reprinted in* II Nat'l Rep. on Legal Ethics and Prof. Resp. (U. Pub. of Am.) Ms:Op:8 (1988) (concluding that an attorney communicating with an unrepresented adverse party should refrain from giving advice and making false statements); Model Rules, *supra* note 13, Rule 4.1.

80. *See* A.B.A. Center for Prof. Resp., The Legislative History of the Model Rules of Professional Conduct: Their Development in the ABA House of Delegates 150 (1987).

81. Indeed, it is possible the employee has even consulted the lawyer concerning a personal legal problem. *See* Bobbitt v. Victorian House, Inc., 545 F. Supp. 1124, 1126-27 (N.D. Ill. 1982); United States v. Turkish, 470 F. Supp. 903, 910 (S.D.N.Y. 1978).

fusion could also be a result of the combined pressures of loyalty and apprehension already discussed. Thus, if corporate counsel had to follow the higher standard of conduct called for by Model Rule 4.3[82] and she perceived that an employee was at all unclear that her representation of the corporation did not encompass protection of the employee's interests, the corporate attorney would have to immediately try to correct the employee's misunderstanding. Such an effort could thus be required before it became apparent that the corporation's interests were adverse to those of the employee.[83]

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82. The conclusion that there are two standards seems further supported by the fact that there were last minute changes to both Rule 1.13(d) and the explanatory comment relating to it. These changes eliminated certain similarities in language and tone that the draft Rule and comment had had with Rule 4.3. *Compare* Model Rules of Professional Conduct, Rule 1.13 (Final Draft) & comment, "Clarifying the Lawyer's Role," *reprinted in* 68 A.B.A.J. 1411 (1982) *with* MODEL RULES, *supra* note 13, Rule 1.13 & comment,"Clarifying the Lawyer's Role." The draft Rule called for an attorney to clarify that she represented the corporation "when the lawyer believes that such explanation is necessary to avoid misunderstandings on [the constituents'] part." *See* Model Rules of Professional Conduct, Rule 1.13(d) (Final Draft), *reprinted in* 68 A.B.A.J. 1411 (1982). However, an amendment to subsection (d) eliminated the lawyer's need to focus on the employee's comprehension. *See* MODEL RULES, *supra* note 13, Rule 1.13(d). Additionally, the drafters altered the entire explanatory discussion for subsection (d). *Compare* Model Rules of Professional Conduct, Rule 1.13 (Final Draft) comment, "Clarifying the Lawyer's Role," *reprinted in* 68 A.B.A.J. 1411 (1982) *with* MODEL RULES, *supra* note 13, Rule 1.13 comment,"Clarifying the Lawyer's Role." Prior to the changes, the explanatory comment relating to subsection (d) had also been similar to Model Rule 4.3 relative to that Rule's concern that an employee might be harmed if he misunderstood the corporate lawyer's role. *See* Model Rules of Professional Conduct Rule 1.13 (Final Draft) comment, "Clarifying the Lawyer's Role," *reprinted in* 68 A.B.A.J. 1411 (1982). The draft comment ended with the specific advice that "if the lawyer is conducting an inquiry involving possibly illegal activity, a warning might be essential to prevent unfairness to a corporate employee." *See id.* Furthermore, the final draft of the comment to Model Rule 1.13(d) contained a cross-cite to Model Rule 4.3, which was eliminated from the amended comment. *Compare id. with* MODEL RULES, *supra* note 13, Rule 1.13 comment,"Clarifying the Lawyer's Role." *See also* MICHIGAN RULES OF PROFESSIONAL CONDUCT Rule 1.13(d) & comment (1988) (adopting the originally proposed version of Model Rule 1.13(d) and comment).

83. *See* CALIFORNIA RULES OF PROFESSIONAL CONDUCT Rule 3-600(D) (1989) (modifying Model Rule 1.13(d) to require that a corporate lawyer clarify her role "whenever it is or becomes apparent that the organization's interests are or may become adverse to those of the constituent(s) with whom the [lawyer] is dealing"). In proposing this modification of Rule 1.13(d), the California drafters noted:

> The proposed rule also addresses a disturbing and rather common situation where the organization's attorney deals with an officer or other employee who may be exposed to serious personal legal risk if that individual's activities are disclosed to the organization's attorney, and the attorney finds it is in the interest of the organization to jettison the disclosing individual. The proposed rule makes it clear that, as soon as the attorney perceives the likelihood of such a disclosure,

The Rules also set a different standard for an attorney's relationship with corporate employees under Model Rule 3.4(f). In that rule, lawyers are admonished not to request individuals, other than their clients, to refrain from voluntarily talking to another party.[84] However, an exception is made for employees of a client so long as a lawyer reasonably believes the employee's interests will not be adversely affected by a request to remain silent.[85]

The comment to Model Rule 3.4(f) gives some clues to the drafters' assumptions concerning this Rule. In explaining the meaning and purpose of this exception, the drafters stated: "Paragraph (f) permits a lawyer to advise employees of a client to refrain from giving information to another party, for the employees may identify their interests with those of the client."[86] Employees do identify their interests with those of their employer given their concerns about retaining their employment.[87] However, if an employee fully understood at the time of a meeting with the corporate counsel how his personal interests could diverge from those of the corporation, he might not identify so closely with his employer. Therefore, the employee would be less inclined to cooperate with the corporation's attorney unless such cooperation also served his own interests.[88]

This comment concerning the employee exception in Model Rule 3.4(f) seems overly generalized on an issue that could have serious ramifications for an employee. Significantly, Rule 3.4(f) contains no requirement that the corporate attorney discuss the situation with the

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> he or she must give a warning to the individual officer that their relationship is not confidential and that the attorney will use any such information in the best interests of the organization. The Commission believes this formulation will be of great assistance in providing protection and integrity in this rather common situation, and incidentally will protect both the organization and its counsel from suffering involuntary disqualification.

CALIFORNIA COMM'N FOR THE REVISION OF THE RULES OF PROF. CONDUCT, PROPOSED AMENDMENTS TO THE RULES OF PROFESSIONAL CONDUCT 29 (1987) (citations omitted).

84. MODEL RULES, *supra* note 13, Rule 3.4(f) ("A lawyer shall not . . . request a person other than a client to refrain from voluntarily giving relevant information to another party unless: (1) the person is . . . an employee or other agent of the client; and (2) the lawyer reasonably believes that the person's interest will not be adversely affected by refraining from giving such information.").

85. *See id.* Rule 3.4(f)(1)-(2).

86. *Id.* Rule 3.4 comment, para. 4.

87. *See supra* note 50 and accompanying text.

88. One commentator noted: "In our age of pervasive government regulation of business organizations, there is often such a substantial risk that an employee may find himself in a position adverse to his employer that a reasonable argument can be made that the employee should have his own counsel throughout his employment." Birdzell, *supra* note 69, § 2.03[2][c], at 2-15.

employee.[89] Rather, the attorney can reach her own decision as to whether the employee's interests will be harmed and request that the employee remain silent.[90] Many employees would be reluctant to refuse such a request.[91]

This comment to Model Rule 3.4 also cross-references to Model Rule 4.2 which proscribes a lawyer from communicating with represented persons without the consent of their attorney.[92] The comment to Model Rule 4.2 notes:

> In the case of an organization, this Rule prohibits communications by a lawyer for one party concerning the matter in representation with persons having a managerial responsibility on behalf of the organization, and with any other person whose act or omission in connection with that matter may be imputed to the organization for purposes of civil or criminal liability or whose statement may constitute an admission on the part of the organization.[93]

This interpretation of Model Rule 4.2 suggests that opposing counsel is not permitted to communicate directly with any current employee whose

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89. Some commentators have suggested that an attorney who requests the silence of a person related to a client should make sure that the individual appreciates that his silence is for the benefit of the client and not himself. *See* 1 HAZARD & HODES, *supra* note 38, at 382.

90. There may be some limitations on the lawyer's decisionmaking in that she must reasonably believe the employee will not be harmed by the request. "Reasonably believes" is defined as meaning "that the lawyer believes the matter in question and that the circumstances are such that the belief is reasonable." *See* MODEL RULES, *supra* note 13, Terminology, para. 8. Arguably, however, even if the attorney has never talked to the employee, the attorney may request that the employee remain silent provided she knows no reason why remaining silent could harm him. *Cf. In re* Investigation Before the April 1975 Grand Jury, 403 F. Supp. 1176, 1178 (D.D.C. 1975), *vacated*, 531 F.2d 600, 602-03, n.4 (D.C. Cir. 1976) (per curiam) (both courts noting that an attorney for multiple witnesses avoided dealing with the significant likelihood that his clients might have conflicts of interest by not having individual consultations with them).

91. Indeed, one illustration of the operation of this Rule has the lawyer telling the employees of his corporate client not to speak to anyone associated with the opposing party in a lawsuit, and a superior adding that any employee who disobeys that advice will be fired. *See* 1 HAZARD & HODES, *supra* note 38, at 384-85. The commentators' analysis of this situation would attribute the threat to the lawyer, but would still not find the attorney to have acted improperly. Despite the inherent coercion of the employees, they conclude that the employer can require the employees' silence since the company itself has a right to maintain silence, absent formal discovery. *See id.*

92. *See* MODEL RULES, *supra* note 13, Rule 4.2 ("In representing a client, a lawyer shall not communicate about the subject of the representation with a party the lawyer knows to be represented by another lawyer in the matter, unless the lawyer has the consent of the other lawyer or is authorized by law to do so.").

93. *Id.* Rule 4.2 comment, para. 2.

scope of employment involved him in the wrongful conduct that has been alleged against the corporation.[94] Such employees are the very persons who would most likely be adversely affected by employer-imposed silence, especially if that silence prevents them from having the opportunity to negotiate for personal immunity from government prosecution or to plea bargain.

The combined effect of Model Rules 3.4(f) and 4.2 means that there can be no contact by the opposing counsel with the potentially culpable corporate employee without the consent of the corporation's attorney, even though the employee is clearly not personally represented by the corporate attorney.[95] Further, the corporation's attorney might request

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94. Such an interpretation would comport with evidence rules which permit the admission of statements by a corporation's employee-agents who are either authorized to speak for the entity or whose statements concern matters within the scope of their employment. *See* Mahlandt v. Wild Canid Survival & Research Center, Inc., 588 F. 2d 626, 630 (8th Cir. 1978); Process Control Corp. v. Tullahome Hot Mix Paving Co., 79 F.R.D. 223, 225 (E.D. Tenn. 1977); Western Union Tel. Co. v. N.C. Direnzi, Inc., 442 F. Supp. 1, 4 (E.D. Pa. 1977); CAL. EVID. CODE § 1222 (West 1966); FED. R. EVID. 801(d)(2)(C),(D). However, in considering whether opposing counsel may contact corporate employees on the subject of a controversy without permission of corporate counsel, some courts and bar associations have concluded that there should be no such contact by opposing counsel because in most cases neither opposing counsel nor the employee at the time of an interview is able to fully appreciate what is within the employee's scope of employment. *See* Niesig v. Team I, No. 31NE (N.Y. Sup. Ct., App. Div., Aug. 7, 1989) (interpreting DR 7-104(A)(1)) (digested in 5 Law. Man. on Prof. Conduct (ABA/BNA) 289 (1989)); Los Angeles County Bar Ass'n. Formal Op. 410 (1983), *reprinted in* 2 CAL. COMPENDIUM ON PROF. RESP. 114 (1988) (interpreting California's ethical rule on an opposing counsel's contacts with represented persons). *But see* Morrison v. Brandeis University, 125 F.R.D. 14 (D. Mass. 1989) (concluding, inter alia, that Model Rule 4.2's view of which employees are off limits is too broad, and choosing a balancing test in determining whether a party should have access to non-party employees without the presence of opposing counsel, as well as requiring opposing counsel to disclose their role to any employees contacted); Virginia Legal Ethics Comm. Op. 905 (1987), *reprinted in* II Nat'l Rep. on Legal Ethics and Prof. Resp. (U. Pub. of Am.) Va:Op:8 (1988) (concluding that an opposing attorney may communicate with a corporate employee if the employee is in a managerial position and has no authority to act or decide for the entity on the subject matter in controversy, provided opposing counsel clearly discloses his role).

The issue of whether opposing counsel can contact former employees of a corporate adversary is similarly unsettled. However, some recent interpretations have permitted such contact. *See* Triple A Machine Shop Inc. v. State, 213 Cal. App. 3d 131, 261 Cal. Rptr. 493 (1989); Alaska Bar Ass'n Ethics Comm. Op. 88-3 (1988) (digested in 4 Law. Man. on Prof. Conduct (ABA/BNA) 266 (1988)); Florida Bar Prof. Ethics Comm. Op. 88-14 (1989) (digested in 5 Law. Man. on Prof. Conduct (ABA/BNA) 101 (1989)); Virginia Legal Ethics Comm. Op. 905 (1987), *reprinted in* II Nat'l Rep. on Legal Ethics and Prof. Resp. (U. Pub. of Am.) Va:Op:8 (1988).

95. Indeed, if the employee had separate counsel, consent of his own counsel is sufficient to satisfy Model Rule 4.2. Opposing counsel need not also secure the permission of the corporation's attorney in that instance. *See* MODEL RULES, *supra* note 13, Rule 4.2 comment, para. 2.

that the employee not speak with the opposing party[96] and thus dissuade him from making any effort on his own to contact a government attorney involved in the investigation.[97] Unfortunately, neither Model Rules 1.13 nor 3.4(f) mandate that the corporation's attorney provide the employee with any immediate information about the investigation and/or the attorney's role that would help him to protect his own interests. In addition, both Model Rules 3.4(f) and 4.2 see the employee only as part of the corporation, and thus, the attorney is permitted to take action involving employees which will further only the corporation's interests.[98] The employee's personal interests are not recognized.

The potentially detrimental treatment of an employee which is allowed by these Rules seems at first inconsistent with the spirit of Model Rule 4.4 which instructs: "In representing a client, a lawyer shall not use means that have no substantial purpose other than to embarrass, delay, or burden a third person . . . ."[99] The Rule's comment emphasizes that while a lawyer is normally expected to promote only his client's interests, she must still have regard for others.[100] However, if the corporate attorney were charged with violation of this Rule for embarrassing or burdening an employee, she could probably justify her behavior by demonstrating how the action taken had assisted the corporate client and therefore did not have the "substantial purpose" of harming an employee. Thus, Model Rule 4.4 might really provide little protection for third persons, even those to whom the corporate attorney arguably should have some duty.

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96. Of course, such a request would be improper if the attorney believed at the time of making it that the employee would be harmed if he complied. *See supra* notes 84-85 and accompanying text.

97. As noted, the employee might have an interest in communicating with a government attorney in order to negotiate a promise of immunity or a favorable plea bargain in return for his willingness to testify against the corporation or other more culpable employees. Indeed, the corporate attorney, even if he represented the employee, would probably be precluded from recommending to an employee that he enter into such negotiations because such a step might prejudice the corporate client. *See In re* FMC Corp., 531 F.2d 600, 603 n.4 (D.C. Cir. 1976).

98. *Cf.* United States v. Linton, 502 F. Supp. 871, 873-74 (D. Nev. 1980) (corporation's attorney who also represented employees whom prosecution intended to call as witnesses refused to permit prosecutor pre-trial interviews with employees); ABA Comm. on Ethics and Professional Responsibility, Informal Op. 83-1498 (1983) (observing that the prohibition against talking to an adverse party applies even if the individual is willing to communicate in the absence of his attorney). *But cf.* 1 HAZARD & HODES, *supra* note 38, at 438 (opining that a client may reject the advice of his attorney to say nothing or to speak only in the attorney's presence).

99. MODEL RULES, *supra* note 13, Rule 4.4.

100. *See id.* comment ("Responsibility for the client requires a lawyer to subordinate the interests of others to those of the client, but that responsibility does not imply that a lawyer may disregard the rights of third persons.").

The reality for the employee under the Model Rules is that Rule 1.13 allows a corporate attorney to withhold from the employee clarification that the entity is her only client until after the employee has confessed to a personally culpable act, despite the fact that both Model Rules 4.3 and 4.4 encourage fair treatment in an attorney's relationships with non-clients. The corporate attorney is permitted to remain silent notwithstanding that she should realize that many of the employees she deals with during her investigation, especially those not in upper management, will cooperate with her simply because they fail to appreciate that her independent professional judgment is only being exercised in favor of the entity, and they therefore do not comprehend the risk to themselves from open, unrestrained conversation with the corporation's attorney. The Rules allow the attorney to freely interrogate an employee and thus encourage his confession to activities which could cause his firing or other loss of status at the worksite and/or criminal prosecution.[101]

Once the attorney has obtained disclosures damaging to the employee, the attorney can use them in whatever way will best serve her client, the corporation.[102] Since the employee did not enjoy an attorney-client relationship with the corporation's attorney, the employee will probably be unable to stop the use of this information even though it substantially harms his interests.[103] The employee will be able to claim his discussions were confidential and subject to the attorney-client privilege only if he can demonstrate that it was reasonable for him to believe that the corporation's attorney was representing him individually.[104] While courts

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101. Civil liability for an employee is also possible, but is outside the scope of this Article. *See supra* note 7 and accompanying text. Besides disadvantaging an employee through interrogation, other manipulation of the employee is permitted by Model Rule 3.4(f). *See supra* notes 84-91 and accompanying text.

102. Under the Model Rules an attorney who intends to have a client relationship only with the corporation must resolve questions of loyalty in the corporation's favor. *See* MODEL RULES, *supra* note 13, Rule 1.13(a) & comment, paras. 1-3.

103. *See, e.g., In re* Grand Jury Investigation, 599 F.2d 1224, 1236 (3d Cir. 1979) ("Because [lower-echelon employees] have no control over the privilege itself, their communications remain confidential only in the sense that they are not released to outsiders, and only as long as the corporate control group desires to assert the privilege. If the employees had engaged in questionable activity, the corporation clearly would have the power to waive the privilege and to turn the employees' statements over to law enforcement officials."); *In re* Grand Jury Proceedings, 434 F. Supp. 648, 649-50 (E.D. Mich. 1977) (attorney for corporation permitted to testify before a grand jury concerning communications with corporate officer where corporation had waived its privilege and no attorney-client relationship found between attorney and officer), *aff'd*, 570 F.2d 562 (6th Cir. 1978); *supra* note 40 and accompanying text.

104. In theory, the belief of the employee that he is consulting with an attorney in order to secure legal advice should govern in such a situation. *See* Helman v. Murry's

have indicated that an attorney-client relationship can exist even though there has been no payment of fees and there is no formal contract,[105] some courts do not find reasonable an employee's claim that he thought the corporate attorney was acting on his behalf unless the attorney has made an appearance with the employee at a grand jury or administrative hearing.[106]

Steaks, Inc., 728 F. Supp. 1099, 1103 (D. Del. 1990); Westinghouse Electric Corp. v. Kerr McGee Corp., 580 F.2d 1311, 1319 & n.14 (7th Cir.), *cert. denied*, 439 U.S. 955 (1978); *In re* McGlothen, 99 Wash. 2d 515, 663 P.2d 1330, 1334 (1983). However, that belief must be reasonable. *See* United States v. Keplinger, 776 F.2d 678, 700-01 (7th Cir. 1985), *cert. denied*, 476 U.S. 1183 (1986); Odmark v. Westside Bancorporation, Inc., 636 F. Supp. 552, 555 (W.D. Wash. 1986). Moreover, the employee may have to make it clear to the attorney that he is seeking personal legal advice. *See Keplinger*, 776 F.2d at 700-01; *In re* Grand Jury Proceedings, Detroit, Mich., Aug., 1977, 434 F. Supp. 648, 650 (E.D. Mich. 1977), *aff'd*, 570 F.2d 562 (6th Cir. 1978). This may be asking a lot of an employee with little experience in dealing with lawyers who may not understand that the corporate counsel is not representing him *and* the corporation. *See supra* notes 48-57 and accompanying text. Further, at the point the employee seeks to convince a court that an attorney-client relationship exists, it is usually not in the interests of the corporate attorney's corporate client for the employee to succeed. *See* Bobbitt v. Victorian House, Inc., 545 F. Supp. 1124, 1125-26 (N.D. Ill. 1982) (employee sought to disqualify corporate counsel's continued representation of corporation); E.F. Hutton & Co. v. Brown, 305 F. Supp. 371, 375 (S.D. Tex. 1969) (same); Cooke v. Laidlaw, Adams & Peck, Inc., 126 A.D.2d 453, 510 N.Y.S.2d 597, 598 (N.Y. App. Div. 1987) (same). Finally, the employee suffers a disadvantage from the fact the courts usually find attorneys' statements inherently credible, and thus may believe their testimony over that of the employee. *See Keplinger*, 776 F.2d at 699.

105. *See, e.g.*, United States v. Costanzo, 625 F.2d 465, 468 (3d Cir. 1980) (attorney-client relationship is not dependent on execution of a formal contract or payment of fees), *cert. denied*, 472 U.S. 1017 (1985); *Westinghouse Electric Corp.*, 580 F.2d at 1317 (same); *Helman*, 728 F. Supp. at 1103 ("The essence of whether one communicating with an attorney is a 'client' depends upon whether that person is seeking legal advice not whether there is a payment of a fee or an execution of a formal contract."); *E.F. Hutton & Co.*, 305 F. Supp. at 388 (attorney-client relationship is not dependent on execution of a formal contract or payment of a fee). *See also* MODEL RULES, *supra* note 13, Scope, para. 3 (noting that the ethical duty of confidentiality can attach during the period when the lawyer is considering whether to enter into an attorney-client relationship); C. WOLFRAM, *supra* note 58, § 6.3.2, at 251 (same).

106. *Compare E.F. Hutton & Co.*, 305 F. Supp. at 401 (disqualifying a law firm from continued representation of a corporation where the firm's members had made appearances before related bankruptcy and administrative agency as attorney on behalf of an employee) *and Cooke*, 510 N.Y.S. 2d at 599-600 (holding that where corporate attorney appeared on behalf of officer at related administrative proceedings, attorney would be disqualified from representation of entity in suit brought against it by that officer) *with Odmark*, 636 F. Supp. at 555 ("[M]ere subjective belief that the person is being individually represented is not enough to support the existence of a joint privilege unless the belief is minimally reasonable.") *and Bobbitt* 545 F. Supp. at 1126 (finding that in the usual situation a corporate director should understand that when he speaks to corporate counsel the communication is "known by the corporation" and thus that

Notwithstanding that it is difficult for an employee to make a successful claim of personal representation by the corporate attorney, such a claim is a threat to her effective representation of the corporation. Absent an early clarification by the corporate attorney of who is and who is not her client, the employee might make such a claim[107] because he might not have comprehended that the attorney was only representing the corporation and thus believed she was representing him as well. If an attorney-client relationship by the corporate attorney with the employee were found, her ability to represent the corporation could be severely affected. For instance, the employee could seek to disqualify the attorney from continued representation of the corporation because a conflict of interest would exist given that he has or had had an attorney-client relationship with the corporation's attorney concerning the same subject.[108] The employee could also assert an attorney-client privilege as to

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the attorney is not representing the director). However, representation of an individual can occcur short of an actual appearance before an administrative proceeding. *See* Michigan Bar Informal Op. CI-998 (1984), *reprinted in* I Nat'l Rep. on Legal Ethics and Prof. Resp. (U. Pub. of Am.) Mi:Op:16, 16-17 (1987) (because an attorney-client relationship existed when attorney secured facts from members of a client organization and drafted their petitions for filing before state commission, attorney could not represent client organization in opposing members' petitions at commission hearing, even though the attorney had told individuals he could not represent them before the commission and they secured other counsel).

107. The claim would likely arise at a later point when the employee and the corporation find themselves in opposing positions concerning the subject of the investigation. Such opposing positions could occur in a criminal matter because a corporation and/or several of its employees are named as defendants but have different interests as co-defendants. *See* United States v. Multi-Management, Inc., 743 F.2d 1359, 1361, 1363-64 (9th Cir. 1984). The employee could also be called as a witness for the government, and in that way could also find himself opposing his employer or other employees. *See* Theodore v. New Hampshire, 614 F.2d 817 (1st Cir. 1980). The issue can also be raised by the government prosecutor who feels there is a conflict because corporate counsel is now or has once represented employees who are co-defendants, *see* United States v. Agosto, 675 F.2d 965, 976-77 (8th Cir.), *cert. denied*, 459 U.S. 834 (1982), or who will be called as prosecution witnesses, *see* United States v. Linton, 502 F. Supp. 871, 873 (D. Nev. 1980); United States v. FMC Corp., 495 F. Supp. 172, 174 (E.D. Pa. 1980).

108. *See* United States v. James, 708 F.2d 40 (2d Cir. 1983) (disqualifying defendant's counsel on motion of government and a witness where counsel had formerly represented the witness on issues substantially related to present case); *E.F. Hutton & Co.*, 305 F. Supp. at 395 (disqualifying counsel for a corporation where an employee had been earlier represented by the same law firm at grand jury and administrative hearings on the subject at issue in the lawsuit). Model Rule 1.7 requires the consent of the employee as a present client where representation of another client might work to the employee's disadvantage. *See* MODEL RULES, *supra* note 13, Rule 1.7; *infra* notes 139-55 and accompanying text (discussing the consent required by Model Rule 1.7 when there is simultaneous representation). Model Rule 1.9 requires the consent of an employee as a former client where the attorney seeks to represent another in a substantially related matter in which the

his communications with the attorney and thus seek to prevent use of his information, such as in a judicial or administrative proceeding.[109]

However, since it is not easy for an employee to demonstrate later to a court's satisfaction that he had a reasonable belief that an attorney-client relationship existed with a corporation's attorney,[110] the possibility that an employee might be successful may not motivate a corporate attorney to give him early warning concerning the ramifications of communication with her. For these reasons, if an attorney representing only the corporation gives the applicable Model Rules a narrow interpretation, the employee will be in a legally vulnerable position.[111]

2. Situation 2: The Corporate Attorney Enters into a Client Relationship with the Employee.—Since the Model Rules do permit a corporation's attorney to also represent an employee of her client under certain conditions,[112] an employee may agree to be represented by an

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employee's interests are adverse. *See* MODEL RULES, *supra* note 13, Rule 1.9; *infra* notes 163-68 and accompanying text (discussing the consent required by Model Rule 1.9 when there is successive representation); *infra* note 217 (discussing the courts' approach when motions to disqualify are made).

109. *See Odmark*, 636 F. Supp. at 554 (corporate officers and directors opposed receiver's planned interviews with counsel for bankrupt corporation on the basis of attorney-client privilege); *E.F. Hutton & Co.*, 305 F. Supp. at 400 (corporate officer sought injunction on the basis of attorney-client privilege against former counsel who now represented corporation to prevent counsel's disclosure to the corporation of information obtained from the officer).

Even when there has been joint representation of more than one person by the same attorney concerning the same subject and thus certain information has been shared between the parties, there can still be confidentiality on matters of individual interest occurring only between one party and the joint attorney. *See* Western Continental Operating Co. v. Natural Gas Corp., 212 Cal. App. 3d 752, 762, 261 Cal. Rptr. 100, 104-05 (1989); 24 C. WRIGHT & K. GRAHAM, FEDERAL PRACTICE & PROCEDURE § 5505, at 554 (1986). Furthermore, the joint-client exception to the attorney-client privilege does not apply where the joint representation was undertaken without the proper disclosure and consent. *See* Industrial Indem. Co. v. Great Amer. Ins. Co., 73 Cal. App. 3d 529, 536 & n.4, 140 Cal. Rptr. 806, 810 & n.4 (1977).

110. *See supra* notes 104-06 and accompanying text.

111. Even though an attorney may avoid being disqualified by a court because the employee cannot satisfy a court that he should be viewed as a client, the attorney's behavior in receiving and exploiting the employee's confidences may still be viewed as an ethical violation. *See* Los Angeles County Bar Ass'n Formal Op. 366 (1977), *reprinted in* 2 CAL. COMPENDIUM ON PROF. RESP. 65 (1988) (where attorney had been consulted confidentially by individual who was to become a prosecution witness in a murder case, the attorney could not accept as a client a defendant in the same matter because consulting individual was "former client" and was owed duty of confidentiality). This difference in result by a bar association and a court could occur because the bar association would focus on the ethical, not the legal, rule and because a court may not fully consider an attorney's duty to a former client-witness. *See id.*

112. *See* MODEL RULES, *supra* note 13, Rules 1.7, 1.13(e); *infra* notes 117-24 and

attorney who is also counsel to the corporation in connection with government allegations of an alleged corporate illegality.[113] This Subpart will discuss the conditions under which such simultaneous representation of the entity and an employee can occur and the ways in which an employee might receive less than the full independent professional judgment of a joint attorney. As in the previous Subpart, this discussion will demonstrate that attorney behavior which is condoned by the Model Rules could nevertheless have an adverse effect on an employee's interests.

There are various rationales for attorneys and clients undertaking such simultaneous representation. Some of the reasons are appropriate; some are inappropriate. Examples of appropriate reasons may include the belief that it is in the interest of all concerned to have unified representation, and the fact that representation by a single attorney can save attorney's fees because there is an efficiency in only one attorney or team of attorneys having to learn the background story of the representational subject.[114] Examples of inappropriate reasons can be the desire by the corporate client or its attorney to keep control of the representation of its employees[115] and the attorney's desire to earn more fees.[116]

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accompanying text. As will be discussed, a key condition to such joint representation is that there be no impairment of the attorney's loyalty or independent professional judgment as to either client. *See id.* Rule 1.7 & comment.

113. Representation of more than one client at the same time concerning the same issue is referred to by several terms, the most common of which are "joint representation" or "simultaneous representation." The United States Court of Appeals for the First Circuit has further sub-defined multiple representation into categories concerning whether the representation involves co-defendants or a defendant and a witness. The First Circuit labels the former type of multiple representation "joint representation," while the latter is labelled "dual representation." *See* United States v. DiCarlo, 575 F.2d 952, 957 (1st Cir.), *cert. denied*, 439 U.S. 834 (1978). This Article will not use these sub-definitions but will use the terms joint representation and simultaneous representation interchangeably, along with the more general "multiple representation." The generalized term "multiple representation" can have a broader meaning than just simultaneous representation of multiple clients. This term can also refer to representation of clients successively, or non-simultaneously. The successive, multiple representation situation can arise when the corporate attorney has represented both the corporation and an employee for a time, but then withdraws from representation of the employee. *See infra* notes 160-63 and accompanying text.

114. *See* United States v. Turkish, 470 F. Supp. 903, 907 (S.D.N.Y. 1978) (recognizing cost economies can be a factor in joint representation decisions). *See generally* Birdzell, *supra* note 69, § 2.03[2][c], at 2-16; Miller, *The Problems of Multiple Representation in the Investigation and Prosecution of Corporate Crime*, 29 FED. BAR NEWS & J. 217, 217 (1982).

115. *See* Wood v. Georgia, 450 U.S. 261, 269 (1981) (observing that there can be a risk that an attorney paid by an employer to represent an employee will prevent the employee from testifying against his employer); United States v. Linton, 502 F. Supp. 871, 873-74, 877 (D. Nev. 1980) (noting that dual representation of a corporation and

Model Rule 1.7 is the primary ethical requirement concerning simultaneous multiple representation of a corporation and an employee with which an attorney must comply.[117] Under certain conditions, Rule 1.7 permits representation of such multiple clients even when the interests of one client will be directly adverse to those of another,[118] or even when the representation of one client might be materially limited by a lawyer's responsibilities to another client or by his own interests.[119] In

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employees who were to be prosecution witnesses creates a potential conflict of interest especially where the joint attorney refused to allow prosecutor to have pre-trial interviews with the employees); United States v. RMI Co., 467 F. Supp. 915, 922-23 (W.D. Pa. 1979) (disqualifying corporate counsel from representing employees before a grand jury, in part because counsel's loyalties toward the corporation could suggest that the attorney was influencing witnesses to protect the entity's interests); Moore, *Disqualification of an Attorney Representing Multiple Witnesses Before a Grand Jury: Legal Ethics and the Stonewall Defense,* 27 UCLA L. Rev. 1, 8-10 (1979) (noting that multiple representation of corporate employees can impede a grand jury investigation, especially when only some of the clients are really culpable); Miller, *supra* note 114, at 217 (identifying as an advantage of multiple representation that corporate defendants are less susceptible to government pressure to cooperate, but recognizing that multiple representation makes it impossible for an attorney to recommend one client cooperate in exchange for immunity or leniency if his disclosure would disadvantage another client); Cole, *Time for a Change: Multiple Representation Should Be Stopped*, 2 J. Crim. Defense 149, 154 (1976) (observing that while multiple representation can save attorneys' fees, the principal motivation is "the desire to keep certain persons in 'friendly' hands").

116. *See* G. Hazard, *supra* note 48, at 71 (observing that an attorney's decision to take on multiple clients involves a conflict between her interest in realizing the economies of multiple representation and her clients' interests); Leary, *Is There a Conflict in Representing a Corporation and its Individual Employees*, 36 Bus. Law. 591, 591 (1981) (observing that an individual can be "at the mercy of a [corporation's] lawyer who is seeking to aggrandize himself because he wants to earn a double or triple fee").

117. *See* Model Rules, *supra* note 13, Rule 1.7. Model Rule 1.13(e) refers to Model Rule 1.7 in providing that a corporate attorney may also represent her client's employees so long as she complies with Rule 1.7 concerning conflicts of interest. Surprisingly, the comment to Model Rule 1.7 makes no reference to joint representation of a corporation and its employees nor any cross-reference to Model Rule 1.13(e). *See id.* Rule 1.7 comment.

118. *See id.* Rule 1.7(a), which provides:

> A lawyer shall not represent a client if the representation of that client will be directly adverse to another client, unless:
>
> (1) the lawyer reasonably believes the representation will not adversely affect the relationship with the other client; and
>
> (2) each client consents after consultation.

119. *See id.* Rule 1.7(b), which provides:

> A lawyer shall not represent a client if the representation of that client may be materially limited by the lawyer's responsibilities to another client or to a third person, or by the lawyer's own interests, unless:
>
> (1) the lawyer reasonably believes the representation will not be adversely affected; and
>
> (2) the client consents after consultation. When representation of multiple

both instances, however, the attorney must reasonably believe[120] that her relationship with or representation of each client will not be adversely affected by any conflict of interest.[121] In other words, the attorney must be convinced that she will be able to provide competent, independent professional judgment on behalf of both the corporation and an employee despite there being an actual or potential conflict.[122] The attorney must also secure each client's consent[123] after discussing the situation with

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clients in a single matter is undertaken, the consultation shall include explanation of the implications of the common representation and the advantages and risks involved.

120. *See* Maryland Comm. on Ethics, Ethics Dkt 87-39 (1987), *reprinted in* II Nat'l Rep. on Legal Ethics and Prof. Resp. (U. Pub. of Am.) Md:Op:32, 34 (1988) (observing that Model Rule 1.7(b) "puts the onus upon the lawyer to reach [her] own determination as to whether the representation would or would not be adversely affected"). For a discussion of how the Model Rules define the term "reasonably believes," see *supra* note 90.

Some commentators have observed that Model Rule 1.7 sets a less strict standard for allowing conflicting representations than did the Model Code. *See* C. Wolfram, *supra* note 58, § 7.2.3, at 341; Birdzell, *supra* note 69, at 1-2. *But see* 1 Hazard & Hodes, *supra* note 38, at 122 (observing that no change in the analysis was contemplated by the Model Rules). The Code prohibited such representation if "it would be likely to involve [the lawyer] in representing differing interests" and it was not "obvious that [the lawyer] can adequately represent the interest of each." *See* Model Code, *supra* note 21, DR 5-105(B),(C) (1981). *See also* Commentary, *Wheat v. United States*, in I Nat'l Rep. on Legal Ethics and Prof. Resp. (U. Pub. of Am.) COM:97, 100 (Luban ed. 1988) (noting that while the objective test in the Model Rules may be less rigid, "the distance between an 'obviousness' standard and a 'reasonable belief' standard is relatively slight").

121. Under Model Rule 1.7(a) (1983), the attorney must be convinced that the representation of one client would not detrimentally affect the *relationship* with the other client. However, under Model Rule 1.7(b), the attorney need only believe that there would be no adverse affect on the *representation* itself. *Compare* Model Rules, *supra* note 13, Rules 1.7(a) *with id.* 1.7(b). In requiring that there be no harm to the attorney-client relationship, Rule 1.7(a) sets a stricter standard than Rule 1.7(b) which only considers whether the quality of the representation will be affected. *See* 1 Hazard & Hodes, *supra* note 38, at 140.2. This difference in standard can be justified by the fact that "Rule 1.7(a) applies to conflicts that *will* occur and will be *direct*, whereas Rule 1.7(b) applies to conflicts that *may* arise, even if only *indirectly*." *Id.* (emphasis in original). In any case, the reasonableness of an attorney's belief that a conflict will not cause the respective adverse effects will be reviewed objectively on a case by case basis. *See* ABA Comm. on Ethics and Professional Responsibility, Informal Op. 84-1508 (1984) (where lawyer's own interests were the source of conflict with the client).

122. *See* Model Rules, *supra* note 13, Rule 1.7 comment, para. 4 ("The critical questions are the likelihood that a conflict will eventuate and, if it does, whether it will materially interfere with the lawyer's independent professional judgment in considering alternatives or foreclose courses of action that reasonably should be pursued on behalf of the client."); 1 Hazard & Hodes, *supra* note 38, at 123.

123. *See* United States v. Turkish, 470 F. Supp. 903, 908 (S.D.N.Y. 1978) (even if multiple representation would not be inappropriate, counsel must raise the issue of a possible conflict with clients and get their consent); Model Rules, *supra* note 13, Rules 1.7(a)(2), (b)(2) (same).

them individually and providing sufficient information for them to reach an informed decision.[124]

In reaching a conclusion as to whether her representation of either the corporation or an employee could be adversely affected by the multiple representation,[125] the attorney must consider the effect on the representation of each client's interests. In making this mandated consideration, she must recognize that during the investigation she is the only person in a position to evaluate effectively and advise the corporation and the employee of their need for vigorous, independent representation.[126] If the investigation later results in the indictment of some but not all of those an attorney has jointly represented, it is possible that those indicted may have received less than vigorous, independent representation.[127] Such a conclusion about the quality of an attorney's representation of an indicted employee-client may be drawn if, for example, the attorney's concern for the corporation had constrained her from urging the employee to seek immunity or plea bargain to a lesser offense in return for cooperation with the prosecutor because that cooperation would have harmed the corporate client.[128]

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124. *See* MODEL RULES, *supra* note 13, Rules 1.7(a), (b) (1983) (both subsections requiring consultation prior to a client's giving of consent); *id.* Terminology, para. 2 (defining consultation as "communication of information reasonably sufficient to permit the client to appreciate the significance of the matter in question."); *infra* notes 139-55 and accompanying text.

125. Each time another employee is added to a corporate attorney's client roster, this analysis must be repeated although it gets increasingly complex. In other words, consideration of representation of the first employee client requires the attorney to examine the conflicts issue as between the corporation and that employee. However, when the second employee determination is made, the attorney must reexamine the conflicts issue as to all three clients, the corporation, the first employee and the second employee.

126. While the prosecutor may also be in a position to recognize potential conflicts, *see Turkish*, 470 F. Supp. at 908, the prosecutor's efforts to cause the disqualification of counsel because of such conflicts will often be thwarted by a court's finding that the existence of a mere potential conflict is insufficient absent strong indications that such a conflict will cause prejudice. *See* United States v. Linton, 502 F. Supp. 871, 877 (D. Nev. 1980); *In re* Special Grand Jury, 480 F. Supp. 174, 178-79 (E.D. Wis. 1979).

127. *See Turkish*, 470 F. Supp. at 908.

128. *See In re* Investigation Before the February, 1977, Lynchburg Grand Jury, 563 F.2d 652, 657 (4th Cir. 1977) (observing that an attorney's responsibility toward one client can prevent her from fulfilling her responsibility to another who could benefit from immunity, and that that conflict between clients would mean the attorney would fail to advise the second client about the possibility of immunity and fail to seek immunity for that client from the prosecutor); Tague, *Multiple Representation of Targets and Witnesses During a Grand Jury Investigation*, 17 AMER. CRIM. L. REV. 301, 306-07 (1980); *cf.* Maryland Comm. on Ethics, Ethics Dkt 87-39 (1987), *reprinted in* II Nat'l Rep. on Legal Ethics and Prof. Resp. (U. Pub. of Am.) Md:Op:32, 34 (1988) (concluding that where one client has a claim against another client, representation of the claimant client would be materially limited by the attorney's responsibilities toward the other client).

If the attorney already knows that an employee has participated in the alleged illegality and thus has personal exposure, she must assess whether that employee and the corporation have defensive interests in common, or whether either could benefit by pointing a finger at the other.[129] If the position of either the employee or the corporation is not yet fully known, the attorney must still assess the likelihood of their interests becoming divergent.[130] As part of her appraisal, the attorney must appreciate that in a criminal case an employee might choose to use defensive tactics that could be incompatible with the interests of the

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129. If she determines there is an actual conflict, Rule 1.7(a) applies a fairly strict standard to protect the attorney-client relationship from harm: a reasonable belief by the attorney that the attorney-client relationship with neither client will be impaired by her representation of the other is required. *See* MODEL RULES, *supra* note 13, Rule 1.7(a)(1), *quoted supra* note 118; *supra* note 121 and accompanying text. While an attorney might believe that a relationship with a large organization would not be affected, the feelings of an individual employee client might become an issue, especially if he had any concerns about getting less than full attention and protection from his attorney. *See* 1 HAZARD & HODES, *supra* note 38, at 132-33. Moreover, it would be highly unlikely that an attorney could believe that she could competently represent two clients having an actual conflict in the same matter. Doing a good job for one would necessarily mean she could not do as well for the other. *See id.* at 123. In such a situation, the attorney cannot even ask for client consent. *See* MODEL RULES, *supra* note 13, Rule 1.7 comment, paras. 4-5; *infra* notes 156-57 and accompanying text. The attorney should only advise the employee that he get independent counsel. *See* ABA Comm. on Ethics & Professional Responsibility, Informal Op. 83-1498 n.1 (1983) (where corporate counsel believed a management employee's interests had "a reasonable possibility of being in conflict with" the corporation's interests, the lawyer's duty was to give no advice except to get separate counsel); MODEL RULES, *supra* note 13, Rule 1.13 comment, para. 8; *id.* Rule 4.3 & comment.

130. *See* MODEL RULES, *supra* note 13, Rule 1.7 comment, para. 4, *quoted supra* note 122. On the question of the likelihood of conflicts developing, the discussion by the AMERICAN BAR ASS'N, STANDARDS RELATING TO THE ADMINISTRATION OF CRIMINAL JUSTICE, THE DEFENSE FUNCTION, Standard 4-3.5(b) (1979) [hereinafter ABA DEFENSE FUNCTION], is instructive:

> The potential for conflict of interest in representing multiple defendants is so grave that ordinarily a lawyer should decline to act for more than one of several codefendants except in unusual situations when, after careful investigation, it is clear that:
>
> (i) no conflict is likely to develop;
>
> (ii) the several defendants give an informed consent to such multiple representation; and
>
> (iii) the consent of the defendants is made a matter of judicial record. In determining the presence of consent by the defendants, the trial judge should make appropriate inquiries respecting actual or potential conflicts of interest of counsel and whether the defendants fully comprehend the difficulties that an attorney sometimes encounters in defending multiple clients.
>
> In some instances, accepting or continuing employment by more than one defendant in the same criminal case is unprofessional conduct.

corporation, and vice versa.[131] Such tactics for the employee could include assertion of the fifth amendment, securing of immunity from prosecution, and plea bargaining.[132] The corporation, however, could not use the fifth amendment,[133] and an offer of immunity to the entity might be less likely. However, the corporation could negotiate its own plea bargain.[134] Therefore, unless the corporate attorney believes that she will be able to keep all the employee's options open without disadvantaging the corporation, she cannot represent them both.

Besides considering whether the interests of one client could affect her relationship with or representation of the other, the attorney must also determine whether her own interests could detrimentally limit her ability to be loyal to either the corporation or the employee.[135] For

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131. *See* Wood v. Georgia, 450 U.S. 261, 269 (1981) (noting that an employee might obtain leniency by offering testimony against his employer or "taking other actions contrary to the employer's interests"); United States v. Agosto, 675 F.2d 965, 977 (8th Cir.), *cert. denied*, 459 U.S. 834 (1982) (noting that an employee might have defenses in conflict with the ones the employer might assert); HANDBOOK ON ANTITRUST GRAND JURY INVESTIGATIONS, *supra* note 71, at 89-90 (identifying common types of conflicts of interest between an employer and an employee based on actions each might desire to take in a criminal investigation).

132. *See* State v. Hilton, 217 Kan. 694, 538 P.2d 977, 981 (1975) (observing in disciplinary case against attorney who represented co-defendants: "The most serious conflict that might arise [in representing co-defendants] is that which occurred in this case—*i.e.*, one defendant takes a plea and becomes a state's witness while the other goes on to trial on a plea of not guilty to the same charge."); HANDBOOK ON ANTITRUST GRAND JURY INVESTIGATIONS, *supra* note 71, at 89-90. *See also* Birdzell, *supra* note 69, at § 2.03[2][c], at 2-14 to -15; Campion & Jacobson, *Representing the Corporate Client Before the Grand Jury*, 4 LITIGATION 14, 16 (Summer 1978).

133. *See supra* note 43 and accompanying text.

134. *See* Cohen, *With Signed Checks, Formal Guilty Plea, Drexel Ends Ordeal*, Wall St. J., Sept. 12, 1989, § A, at 3, col. 4 (reporting that Drexel Burnham Lambert pled guilty to lesser charges to avoid an indictment on racketeering offenses). In the context of seeking a plea bargain the corporation may try to show that the employee acted outside his authority and offer to cooperate with the government's efforts to prosecute that individual. *See* Nat'l L.J., Sept. 25, 1989, at 6, cols. 1-2 (noting that even after Drexel Burnham Lambert's guilty plea to reduced charges, "[t]he company is continuing to cooperate with the government in the pending case against [Michael] Milken"). Since such a showing and offer would obviously be in conflict with the employee's interests, a lawyer representing both the entity and the employee would have a problem adequately representing both parties in such a situation. *See* G. HAZARD, *supra* note 48, at 71.

135. *See* United States v. Hurt, 543 F.2d 162, 166 (D.C. Cir. 1976) (acknowledging that competition between an attorney's interests and those of the client can corrupt the relationship); *In re* Brown, 277 Or. 121, 559 P.2d 884, 888 (1977) ("An attorney must avoid placing [herself] in a position where legal advice to [her] client might have an adverse affect upon [her own interests]."); ABA Comm. on Ethics and Professional Responsibility, Informal Op. 84-1508 (1984) (noting that under Model Rule 1.7(b), where there are factors present in the situation that suggest representation of a client might be

example, the lawyer must examine the fact that she may be inclined to favor the corporation as the larger fee-generating client.[136] She must realize that such an inclination could be influenced both by the fees anticipated from the representation provided to the corporation in the current investigation, as well as fees she might hope to receive from future matters if the corporation were satisfied with her services. Another factor relating to fees which the attorney must recognize could influence both her decision to take on such joint representation and her ability to adequately provide such representation is the simple fact that adding the employee as a client will generate more fees for her firm.[137] Although such fee issues are insidious and therefore should be seriously considered by an attorney, too often their gravity goes unrecognized. An attorney must realize that any competition between her own interests and the client's interests may diminish the caliber of the legal representation.[138]

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significantly limited by the attorney's interests, she cannot reasonably believe there would be no adverse affect); Maryland Comm. on Ethics, Ethics Dkt 87-42 (1987), *reprinted in* II Nat'l Rep. on Legal Ethics and Prof. Resp. (U. Pub. of Am.) Md:Op:35, 37 (1988) (noting that the concept behind Model Rule 1.7 "is that loyalty to a client is an essential element of the lawyer-client relationship"); MODEL RULES, *supra* note 13, Rule 1.7(b)(1).

136. *See* United States v. Agosto, 675 F.2d 965, 976-77 (8th Cir. 1982) (affirming the disqualification of an attorney, who had previously represented both an employee and her employer prior to their indictment, from representation of the employee on the basis that the attorney's pecuniary interests lay with her employer), *cert. denied*, 459 U.S. 834 (1982); In re Hochberg, 2 Cal. 3d 870, 878-79, 471 P.2d 1, 7, 87 Cal. Rptr 681, 687 (1970) (verdict set aside where counsel's interests were primarily concerned with client who hired him and interests of co-defendant-client were ignored). If the attorney is in-house counsel, the loyalty to the employer client might also be compounded because the attorney is an employee and will have the same feelings of commitment and apprehension as any other employee. *See supra* notes 49-52 and accompanying text. The corporate attorney may try to resolve the dilemma of feeling more loyal to the corporation, as well as protect her continuous relationship with the entity, by attempting to limit the representation offered to the employee. *See infra* notes 169-78 and accompanying text.

137. *See* Cole, *supra* note 115, at 149 (noting that multiple representation in a single criminal proceeding is "the answer to a defense lawyer's dream" because she will get a larger fee, often paid by an entity). Indeed, the corporation will often pay for the employee's fees. *See, e.g.*, CAL. LABOR CODE § 2802 (West 1971) (requiring indemnification to any employee of all expenses necessarily incurred as a direct consequence of his performance of his duties, regardless of an employee's knowledge of his acts being illegal); DEL. CODE ANN. tit. 8, § 145(b) (1988 Cum. Supp.) (permitting employee indemnification for reasonable expenses incurred where an employee acted in good faith). Where the corporation pays the employee's attorney's fees, the attorney must be doubly careful that his independent judgment is not influenced by the corporation. *See* Wood v. Georgia, 450 U.S. 261, 269-70 (1981); MODEL RULES, *supra* note 13, Rules 1.8(f), 5.4; *infra* notes 196-99 and accompanying text. If the attorney is in-house counsel, the saving of fees for the client-employer is simply another version of the same issue.

138. *See* United States v. Hurt, 543 F.2d 162, 166 (D.C. Cir. 1976) (recognizing that competition between a client's and attorney's respective interests can dilute the quality

Even assuming the attorney can validly satisfy herself that she can adequately represent both the corporation and the employee, securing both the corporation's and the employee's consent to the dual representation, as required by Model Rule 1.7, will not be easy. The consent of each client must be informed, and therefore, the attorney will need to have a fullblown discussion with each client so that they can understand the situation facing them.[139] In the case of the employee's need for information,[140] simply telling him that the corporation will also be a client or about the existence of the lawyer's own interests is insufficient. The attorney must recognize that while the employee would know what he did and did not do, it is unlikely that he will appreciate the legal significance of his conduct and the value of separate representation. Therefore, it is the attorney who will have to forewarn the employee of the advantages and disadvantages of multiple versus individual representation.[141]

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of representation given the client); District of Columbia Bar Op. 159 (1985), *reprinted in* I Nat'l Rep. on Legal Ethics and Prof. Resp. (U. Pub. of Am.) DC:Op:9, 10 (1987) (if attorney for an entity were to represent a constituent against an influential member of the entity's board, attorney would have to consider the potential for retaliation by the board or entity and its effect on her representation).

139. *See* MODEL RULES, *supra* note 13, Rules 1.7(a)(2), (b)(2). Both sections of Model Rule 1.7 use the phrase, "the client consents after consultation." *See id.* The provision of information in the required consultation must be tailored so that the individual client can appreciate the issue's significance. *See id.* Terminology, para. 2 (defining consultation). This means that the consultation content is tested on a subjective or personal standard vis a vis each client, and not merely judged on the amount or type of information provided. *See* Andersen, *Informed Decisionmaking in an Office Practice*, 28 B.C.L. REV. 225, 230-31 (1987). Moreover, when the lawyer considers taking on multiple clients in the same matter, as would be the case in the scenario under examination, subsection (b)(2) of Model Rule 1.7 also provides that "the consultation shall include the explanation of the implications of the common representation and the advantages and risks involved." MODEL RULES, *supra* note 13, Rule 1.7(b)(2). *See also id.* Rule 1.4(b) ("A lawyer shall explain a matter to the extent reasonably necessary to permit the client to make informed decisions regarding the representation."); ABA DEFENSE FUNCTION, *supra* note 130, Standard 4-3.5(a) ("At the earliest feasible opportunity defense counsel should disclose to the defendant any interest in or connection with the case or any other matter that might be relevant to the defendant's selection of a lawyer to represent him or her.").

140. The corporation will also need adequate information in order to reach an informed decision. In the case of the corporation, appropriate officials must give the consent. *See* Financial General Bankshares, Inc. v. Metzger, 523 F. Supp. 744, 771 (D.D.C. 1981), *vacated on other grounds*, 680 F.2d 768 (D.C. Cir. 1982); MODEL RULES, *supra* note 13, Rule 1.13(e). The corporation's board of directors, in the exercise of their management functions could provide such consent, but the board may also delegate some of its powers to senior management. *See generally* H. HENN & J. ALEXANDER, *supra* note 24, at §§ 207, 212.

141. *See* United States v. Alvarez, 580 F.2d 1251, 1260 (5th Cir. 1978) (refusing to find that a layperson would be aware of the potential conflicts present in a joint

In this regard, the attorney must individually discuss with the employee all the facts, legal implications,[142] possible effects and all other relevant circumstances that might relate to the proposed representation.[143] The attorney will also have to recognize that in order to provide sufficient information about the nature of the conflicts that exist or could exist between the corporation and an employee, she may have to initially secure the consent of the corporation to reveal certain confidential information to the employee.[144] If the corporation is unwilling to consent to such preliminary disclosure, then it will be impossible to provide adequate information to the employee about the limitations on joint representation.[145]

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representation situation); United States v. Turkish, 470 F. Supp. 903, 908 (S.D.N.Y. 1978) (observing that since no court is involved during the investigative stage, the only ones able to alert potential defendants to their need for individualized, independent representation is an attorney retained to provide multiple representation and the prosecutor); Model Rules, *supra* note 13, Rule 1.7 comment, para. 15 ("Resolving questions of conflict is primarily the responsibility of the lawyer undertaking the representation."); G. HAZARD, *supra* note 48, at 83 (noting that a client will not concern himself with whether there is a conflict, and that if the client actually discovers a conflict, "it represents a mistake by the [law] firm, for the firm should have seen it before the client did.").

142. One such legal implication is that the usual rules concerning attorney-client privilege may not apply for clients who use the same attorney in the same matter. Thus, under some rules of evidence, where two clients have employed the same attorney on a matter of common interest, neither will be able to assert the privilege against the other on that matter. *See* FED. R. EVID. 503(d)(5) (Proposed Draft); C. WRIGHT & K. GRAHAM, *supra* note 109, § 5505, at 548-50. However, the joint-client exception to the attorney-client privilege does not apply as to the clients' separate interests for which they desire confidentiality. *See* discussion *supra* note 109. Moreover, the joint-client exception is not applicable where the multiple representation was undertaken without an explanation of the possible conflicts and the clients' consent. *See* Industrial Indem. Co. v. Great Am. Ins. Co., 73 Cal. App. 3d 529, 536 & n.4, 140 Cal. Rptr. 806, 810 & n.4 (1977).

143. *See* Financial General Bankshares, Inc. v. Metzger, 523 F. Supp. 744, 771 (D.D.C. 1981) (requiring full disclosure "of all the facts, legal implications, possible effects, and other circumstances relating to the proposed representation"), *vacated on other grounds*, 680 F.2d 768 (D.C. Cir. 1982); Ishmael v. Millington, 241 Cal. App. 2d 520, 526 & n.3, 50 Cal. Rptr. 592, 596 & n.3 (1966) (observing that full disclosure of the facts "should include a relevation of the detriment to which the dual representation exposes the client and the possible need of representation by independent counsel").

144. *See* MODEL RULES, *supra* note 13, Rules 1.6(a), 1.7 comment, para. 5; Birdzell, *supra* note 69, at § 2.03[2][c], at 2-15.

145. *See* ABA Comm. on Ethics and Professional Responsibility, Informal Op. 1476 (1981) (if to secure one client's consent an attorney might reveal confidences of another client, that other client's confidences cannot be divulged without his consent after telling him the possible consequences of the revelation); MODEL RULES, *supra* note 13, Rule 1.7 comment, para. 5 ("[W]hen the lawyer represents different clients in related matters and one of the clients refuses to consent to the disclosure necessary to permit the other client to make an informed decision, the lawyer cannot properly ask the latter to consent.").

If there is only a possibility that the two clients' interests might become adverse,[146] the ability of both clients to give informed consent becomes more remote. In that situation the attorney might not be able to accurately forecast what conflicts might arise and to provide sufficient information about the potential risks[147] and consequences of the joint representation so that each client can knowledgeably determine if such representation will adequately protect his or its interests.[148] The attorney

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146. Where the corporation is the subject of a government investigation for possible illegal conduct, an attorney must recognize that the likelihood of conflicting interests between the corporation and its employees is definitely present. *See* United States v. Turkish, 470 F. Supp. 903, 907 (S.D.N.Y. 1978) ("Before indictment the potential for conflict is always there although identification of the areas of potential conflict may be considerably more difficult since precise charges are not available to pinpoint those areas."); Bennett, Rach & Kriegel, *supra* note 8, at 80 (noting that "where the company is the subject or target of an investigation, there is often serious potential for the existence of a conflict between it and its employees"). However, in the beginning of the attorney's representation of the corporation, the attorney will no doubt be unable to specify who among her client's many employees will be those with adverse interests.

147. In a case where the potential conflicts involved three defendants, two of whom had pled under a plea bargain and might be called as witnesses against the third, the Supreme Court noted:

> The likelihood and dimensions of nascent conflicts of interest are notoriously hard to predict, even for those thoroughly familiar with criminal trials. It is a rare attorney who will be fortunate enough to learn the entire truth from his own client, much less be fully apprised before trial of what each of the Government's witnesses will say on the stand. A few bits of unforeseen testimony or a single previously unknown or unnoticed document may significantly shift the relationship between multiple defendants. These imponderables are difficult enough for a lawyer to assess, and even more difficult to convey by way of explanation to a criminal defendant untutored in the niceties of legal ethics. Nor is it amiss to observe that the willingness of an attorney to obtain such waivers from his clients may bear an inverse relation to the care with which he conveys all the necessary information to them.

Wheat v. United States, 486 U.S. 153, 170 (1988).

148. For examples of inadequate written descriptions of potential conflicts, *see* United States v. Allen, 831 F.2d 1487, 1500-01 & nn.14, 15 (9th Cir. 1987) (letter explaining conflict and waiver form found inadequate), *cert. denied*, 108 S. Ct. 2907 (1988); United States v. Occidental Chemical Corp., 606 F. Supp. 1470, 1472-73 n.3 (W.D.N.Y. 1985) (letter to former employee merely contained attorney's conclusion that no present conflict existed to prevent representation of individual and the corporation and noted that employee would be dropped as a client "[s]hould a conflict arise", but did not include any explanation concerning what such a conflict could be); Lester, *supra* note 63, at 328-29 (Appendix C—sample letter to individual client where an employer has requested its attorney to represent one or more employees mentioning as the only possible conflict that the employer might assert, that the employee was acting outside the scope of his employment); U.S. Dep't of Justice, Form-DOJ-399 (1985) (Acknowledgment of Conditions of Department Representation) (form requiring federal government employees' execution and acceptance of conditions of representation where the discussion concerning conflicts between the

might be unable to provide sufficient information because she may not yet have completed her investigation, and further, she would not be fully aware of the evidence a prosecutor may have gathered against the corporation and its employees.[149] Nevertheless, as to the employee, the attorney would at minimum need to explain the manner in which conflicts could arise, as well as the possible strategies and defenses available to him individually which might be asserted more vigorously if he was separately represented.[150]

The corporation is typically in a position of having its decisions made by numerous sophisticated advisors who can readily assimilate the information an attorney would provide. The corporation also may well have previously undergone the same or similar situations, and thus have already experienced how actual conflicts can arise. Thus, provision by the corporation of its informed consent for multiple representation may present no particular difficulty beyond whatever internal bureaucratic process must be satisfied. The employee, by contrast, may well be quite inexperienced in such matters and have no access to sophisticated ad-

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employee and his employer is confined to the statement: "If there is a legal argument which should be made in your defense, but which conflicts with a legal position taken by the United States, or any of its agencies, in this or another case, your Department of Justice attorney will not make the argument. You will be advised of this fact so that you may assess available options.").

A lawyer's failure to give adequate information about a potential conflict has caused some courts to find ineffective waivers on the part of individual defendants whose attorneys were handling conflicted multiple representations. *See, e.g.*, *Allen*, 831 F.2d at 1500-02 (finding that for a defendant to be adequately informed for a valid waiver, defendant must know all the risks likely to develop or at least know that risks impossible to foretell may arise); United States v. Agosto, 675 F.2d 965, 976-77 (8th Cir.) (ruling waiver ineffective where defendant was informed that a conflict might arise because attorney had confidential information as a result of prior representation of a co-defendant who was her employer, but was not told that conflict might arise from attorney's continued loyalty to that co-defendant), *cert. denied*, 459 U.S. 834 (1982); United States v. Partin, 601 F.2d 1000, 1008 (9th Cir. 1979) (noting that court would be reluctant to find waiver of conflict-free representation if the conflict issue raised on appeal had been a completely unknown contingency prior to defendant's trial), *cert. denied*, 446 U.S. 964 (1980); United States v. Dolan, 570 F.2d 1177, 1181-82 (3d Cir. 1978) (noting that a defendant may be unable to give informed consent where extent of prejudice is unpredictable); United States v. Dickson, 508 F. Supp. 732, 734 (S.D.N.Y. 1981) (same).

149. *See* United States v. Flanagan, 527 F. Supp. 902, 908-09 (E.D. Pa. 1981) (disqualifying counsel in part on basis that advice to clients about possible conflicts could not be complete in view of their ignorance of government strategy regarding the individual defendants), *aff'd*, 679 F.2d 1072, 1076 (3d Cir. 1982), *rev'd on other grounds*, 465 U.S. 259 (1984); United States v. Carrigan, 543 F.2d 1053, 1058 (2d Cir. 1976) (where defense counsel is uninformed as to the evidence against his clients, he may not be able to judge whether a conflict may develop between them).

150. *See supra* notes 131-34 and accompanying text.

visors.[151] He will also feel under extreme pressure to cooperate[152] and will no doubt view the discussion with the corporate attorney in which his consent is sought as a corporate request that he do so.[153] The corporate attorney must therefore take great care not to pressure the employee even inadvertently into a consent that is not knowledgeable or is inherently unfair to the employee's interests.[154] In this regard, an attorney must realize that providing her opinion to the employee that no conflict exists or that she can adequately represent both the corporation and the employee will influence the employee's decision.[155]

Of course, if the attorney is already aware that the interests of the corporation and the employee are directly adverse, asking for the consent of the two parties might well be inappropriate. Even though Model Rule

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151. *See* Alcocer v. Superior Court, 206 Cal App. 3d 951, 959, 254 Cal. Rptr. 72, 76 (1988); Geer, *Representation of Multiple Criminal Defendants: Conflict of Interest and the Professional Responsibilities of the Defense Attorney*, 62 MINN. L. REV. 119, 140-41 (1978).

152. This pressure will be related both to a concern that the employee may lose his job if he fails to cooperate, *see supra* notes 50-52 and accompanying text, as well as to a concern about how he could alone find and pay for a qualified attorney. *See Commentary*, *supra* n.120, at 100 n.2 (noting that some defendants may accept representation provided by their "crime boss" in part because they cannot pay for a good attorney on their own); Cole, *supra* note 115, at 153 (noting that in SEC v. Csapo, 533 F.2d 7, 11-12 (D.C. Cir. 1976), there was some evidence that witnesses at an administrative hearing accepted multiple representation in part because of a promise that "counsel fees would be taken care of"). *See also* United States v. Bernstein, 533 F.2d 775, 788 & n.10 (2d Cir.) (disqualification of employee's counsel who was paid for by employer where consent was not knowing), *cert. denied*, 429 U.S. 998 (1976).

153. *See In re* Grand Jury Investigation, 436 F. Supp. 818, 821 (W.D. Pa. 1977) (finding that where individual being asked for consent is employee and employer is prospective defendant, "[m]erely informing [employee] of the existence of a potential conflict and seeking a waiver from [the employee] does not adequately deal with the problem of multiple representation in this situation. [The employee's] 'waiver' is likely a function in large part of one's natural hesitancy to alienate the employer rather than a product of a free and unrestrained will."); United States v. Garafola, 428 F. Supp. 620, 624 (D.N.J. 1977) (questioning the validity of an individual's consent to joint representation where a stronger party thrust his own attorney upon that individual), *aff'd sub nom.*, United States v. Dolan, 570 F.2d 1177 (3d Cir. 1978).

154. In this regard, the attorney must be careful not to seek the employee's consent to representation which is limited in scope in ways that are not in the employee's best interests. *See infra* notes 169-78 and accompanying text.

155. *See In re Grand Jury Investigation*, 436 F. Supp. at 821-22 (finding waiver of conflicted representation illusory and criticizing the manner in which an attorney told his client that there might be potential conflicts while at the same time reassuring her that no conflict existed); *Garafola*, 428 F. Supp. at 624 (same); D. BINDER & S. PRICE, LEGAL INTERVIEWING AND COUNSELING: A CLIENT-CENTERED APPROACH 147-53 (1977) (advocating that the client be permitted to make an informed decision); Strauss, *Toward a Revised Model of Attorney-Client Relationship: The Argument for Autonomy*, 65 N.C.L. REV. 315 (1987) (same).

1.7 seems to permit such representation when its criteria are met,[156] the Rule's comment observes that an attorney should not seek a client's consent to multiple representation if independent counsel would not advise an individual to make such an agreement.[157] Thus, if it appears impossible for one attorney to represent both the corporation and an employee without disadvantaging one or the other, neither of the criteria of Model Rule 1.7, not the attorney's reasonable belief nor the clients' informed consent, could be met. Even if no actual conflict exists at the beginning of the simultaneous representation, an attorney must continue to monitor the situation because if the two clients' interests later diverge, she may no longer be able to represent both adequately. In such a case, withdrawal may be the only appropriate option,[158] but at minimum the disclosure and consent steps must be repeated in order for the dual representation to continue.

Assuming Model Rule 1.7 is complied with and simultaneous representation does go forward, it is more likely that the employee will suffer than the corporation, were disadvantage to a client to occur because of the joint representation. Such disadvantage can occur if the

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156. *See* MODEL RULES, *supra* note 13, Rule 1.7; *supra* notes 118-24 and accompanying text.

157. *See* MODEL RULES, *supra* note 13, Rule 1.7 comment, para. 5 ("[W]hen a disinterested lawyer would conclude that the client should not agree to the representation under the circumstances, the lawyer involved cannot properly ask for such agreement or provide representation on the basis of the client's consent."). *See also* Los Angeles County Bar Ass'n, Formal Op. 395 (1982), *reprinted in* 2 CAL. COMPENDIUM ON PROF. RESP. 97, 100 (1988) ("[W]here . . . there is an *actual, present, existing conflict* between the parties, any consent to dual adverse representation by an attorney will be held invalid . . . . As a matter of law a purported consent to dual representation of litigants with adverse interests at a contested hearing would be neither intelligent nor informed." (emphasis in original) (quoting Valley Title Co. v. Superior Court, 124 Cal. App. 3d 867, 882-63, 177 Cal. Rptr. 643, 652 (1981))).

158. Withdrawal from both clients may be required. *See* Virginia Legal Ethics Comm. Op. No. 986 (1987), *reprinted in* II Nat'l Rep. on Legal Ethics and Prof. Resp. (U. Pub. of Am.) Va:Op:29, 29-30 (1988) (concluding that where one client was offered a plea bargain in exchange for testimony against another client, the attorney must withdraw from representation of both clients). This dual withdrawal is necessary because, except in rare situations, the attorney cannot disclose or use any confidences learned from either client without their consent, especially if such disclosure would harm them. *See* G. HAZARD, *supra* note 48, at 81; MODEL RULES, *supra* note 13, Rules 1.6(a), 1.8(b), 1.9(b). However, an attorney would also be expected to use everything she knows and learns about a situation in representing a client. *See* G. HAZARD, *supra* note 48, at 81. Thus, where she has learned information from one client that could assist her representation of another, the temptation to use that information will be great; indeed the nonuse of that information may be virtually impossible. *See* Moore, *supra* note 115, at 64 & n.307. Withdrawal from both clients is the only real antidote to this dilemma, absent getting the consent of one client to the attorney's continued representation of the other and to the attorney's use of the information of the client whose relationship is being ended.

attorney's stronger loyalties do lie with the corporation and she thus provides the employee with less zealous representation. This outcome is particularly likely if the attorney has been representing the corporation for some time, and therefore has the corporation's interests uppermost in mind. Her consideration of the employee's interests may not be so automatic, however, and in any case may be overshadowed by the attorney's greater familiarity with the corporation's needs.[159]

The employee may also be disadvantaged during simultaneous representation if what was a potential conflict becomes an actual divergence of the two clients' interests.[160] This could occur if the government prosecutor offers the employee immunity or a favorable plea bargain in exchange for his testimony against the corporation. In that instance, the corporate attorney would no doubt need to revise her perception that she is able to represent both clients without any adverse effect on her loyalty to each.[161] If the corporate attorney withdraws from representing the employee because of the conflict, the employee will have to establish another attorney-client relationship, perhaps at a crucial stage.[162]

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159. *See* Wood v. Georgia, 450 U.S. 261, 266-68 & nn.11, 13 & 14 (1981) (attorney representing employees but paid by employer seemed influenced in his strategic decisions by interests of employer, not employees); Ishmael v. Millington, 241 Cal. App. 2d 520, 526, 50 Cal Rptr. 592, 596 (1966) ("The loyalty [the attorney] owes to one client cannot consume that owed to the other."); Bloom, *Ethical Dilemmas in Corporate Representation*, 10 L.A. LAW., Mar. 1987, 18, 22 (noting that long-term loyalty to one client can overshadow the loyalty owed to a new client).

160. *See supra* notes 146-49 and accompanying text.

161. For example, when the attorney learns information from one client (client A) harmful to the interests of another (client B),

> The attorney [will] be torn between advising B of the information learned from A, thereby breaching his confidential relationship with client A, or trying to advise client B as if the attorney did not know what client A had told him, when he knows very well that client A's revelations should have a material impact on the attorney's recommendation to B and B's decisions and courses of action.

See In re Investigation Before the April 1975 Grand Jury, 531 F.2d 600, 603 n.4 (D.C. Cir. 1976) (quoting with approval an amicus brief by the Public Defender Service).

162. Such a critical stage could be in the middle of a client's appearance before a grand jury. *See* Cohen, *Issue of Lawyer's Loyalty Is Raised by Drexel Employee's Conviction*, Wall St. J., Mar. 24, 1989, § B, at 3, cols. 1-3 (reporting the opinion of Roy Black, a criminal defense lawyer, that corporate counsel's representation of Lisa Jones, a Drexel Burnham Lambert trading assistant convicted of perjury, should have ended and separate counsel been provided for Jones at the point during the grand jury investigation when prosecutors said Jones' testimony was false, because her interests and Drexel's were then divergent, with her interest being to prevent being charged with perjury and the company's interest to continue to have her exculpate it).

The corporation could also lose the services of the attorney if the attorney's ethical

If withdrawal does occur because the two clients' interests have diverged, the corporate attorney will still owe certain duties to the employee as a former client.[163] Most importantly, according to Model Rule 1.9, she still must maintain the employee's confidences and not use them to his disadvantage absent his consent.[164] Conflicts of interest

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duties require her to withdraw from representation of both clients. *See* Virginia Legal Ethics Comm. Op. No. 986 (1987), *reprinted in* II Nat'l Rep. on Legal Ethics and Prof. Resp. (U. Pub. of Am.) Va:Op:29, 29-30 (1988) (concluding pursuant to Model Code DR 4-101, 5-105 that where one client has been offered a plea bargain in return for testimony against another client, the attorney must withdraw from representation of both); discussion *supra* note 158. However, the corporation and its attorney may try to avoid the need to withdraw from representation of the entity by securing the employee's consent to the corporation's continued representation by the attorney. *See infra* notes 169-78 and accompanying text.

163. Arguably the attorney's withdrawal from representation of the employee converts any future conflict issue between the corporation and the employee into a conflict concerning successive or non-simultaneous representation, rather than involving a simultaneous representation situation. In considering whether an attorney's representation of multiple clients adversely affected the representation of one of them, a court may set lower standards for assessing the existence of conflicts in successive representation situations than in judging simultaneous ones. *See* United States v. DiCarlo, 575 F.2d 952, 957 (1st Cir.), *cert. denied*, 439 U.S. 834 (1978); C. WOLFRAM, *supra* note 58, § 7.4.1, at 358-59. *But see* Unified Sewerage Agency v. Jelco Inc., 646 F.2d 1339, 1344-45 & n.4 (9th Cir. 1981) (applying standards governing simultaneous representation even though representation had ceased prior to disqualification motion being filed so that an attorney could not convert a present client into a former client simply "by choosing when to cease to represent the disfavored client"); C. WOLFRAM, *supra* note 58, § 7.4.1, at 358-59 (same); Dee, *Sexual Harrassment Litigation: An Employer's Perspective* in EMPLOYMENT LITIGATION 1988: A DEFENSE AND PLAINTIFF'S PERSPECTIVE 51, 71 (Prac. L. Inst. Litigation and Admin. Prac. Series, Course Handbook Series No. 346, 1988) (same).

164. *See* United States v. Zolp, 659 F. Supp. 692, 722-23 (D.N.J. 1987) (defining that lawyer's duties include not revealing a client's confidences and secrets); United States v. Standard Oil Co., 136 F. Supp. 345, 355 (S.D.N.Y. 1955) ("The confidences communicated by a client to his attorney must remain inviolate for all time"); Cooke v. Laidlaw, Adams & Peck, Inc., 126 A.D.2d 453, 510 N.Y.S.2d 597, 600 (N.Y. Sup. Ct. 1987) (stating that ethical duties "impose a continuing obligation upon a lawyer to preserve the confidences and secrets of [the] client even after the termination of [the attorney's] employment"); MODEL RULES, *supra* note 13, Rule 1.9(b), which provides:

> A lawyer who has formerly represented a client in a matter shall not thereafter:
>
> . . . .
>
> (b) use information relating to the representation to the disadvantage of the former client except as Rule 1.6 [on confidentiality] or Rule 3.3 [on candor toward a tribunal] would permit or require with respect to a client or when the information has become generally known.

The incorporation in Model Rule 1.9 of the requirements of Rule 1.6 means that an attorney may not reveal a client's confidences absent his informed consent unless otherwise authorized by the referenced Rule. *See id.* Rule 1.6(a) ("A lawyer shall not reveal information relating to representation of a client unless the client consents after consultation,

between the attorney's former representation of the employee and her continued representation of the corporation can arise because of the duties still owed to the employee by the corporate attorney. For example, the corporation's need for zealous representation could tempt her to reveal or exploit the employee's confidential information during her representation of the corporation.[165] On the other hand, loyalty to the employee's interests could prevent her from representing the corporation as diligently as she might absent her duties to the employee.[166] In addition, the corporate attorney would be precluded from continuing to represent

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except for disclosures that are impliedly authorized in order to carry out the representation, and except as stated in paragraph (b).'').

165. *See* Maryland Comm. on Ethics, Ethics Dkt 87-22 (1987), *reprinted in* II Nat'l Rep. on Legal Ethics and Prof. Resp. (U. Pub. of Am.) Md:Op:15, 18 (1988) (where attorney had learned during prior representation of a wife about conduct that could be relevant in representing a husband in a divorce proceeding, continued representation of him absent her consent would violate Model Rule 1.9).

Disadvantage to the employee through the use, but not the revelation, of his confidences could occur simply because the corporate attorney is familiar with his affairs and the manner in which the employee handles himself. *See* Western Continental Operating Co. v. Natural Gas Corp., 212 Cal. App. 3d 752, 261 Cal. Rptr. 100 (1989) (in the course of entity's previous representation by opponent's counsel, that attorney learned crucial knowledge of its internal operating procedures, as well as information concerning a key issue in the present litigation); Michigan State Bar Comm. on Professional and Judicial Ethics Op. RI-35 (1989) (digested in 5 Law. Man. on Prof. Conduct (ABA/BNA) 443 (1990)) (finding representation of a new client improper where the new client has constant and sometimes adverse contact with attorney's former client and attorney has extensive knowledge of and insight into former client's affairs); Connecticut Comm. on Professional Ethics, Informal Op. 88-4 (1988), *reprinted in* II Nat'l Rep. on Legal Ethics and Prof. Resp. (U. Pub. of Am.) Ct:Op:29, 30, 31 (1988) (corporation argued its former attorney had an impermissible level of information about its operations and thus should not be permitted to represent one of its contractors in a claim for payment). As to why there would be great temptation to use a former client's information, see discussion *supra* note 158.

166. *See* United States v. Wheat, 813 F.2d 1399, 1402 (9th Cir. 1987) (noting that an attorney's division of loyalties between former and present clients can incapacitate diligent representation of the present client), *aff'd*, 486 U.S. 153 (1988). If the corporate attorney has learned confidential information from the employee that would be helpful to the corporation, Model Rule 1.9(b) proscribes its use, and thus, because the attorney cannot use what she knows, she may be unable to give the corporation proper advice. *See* Virginia Legal Ethics Comm. Op. No. 1002 (1987), *reprinted in* II Nat'l Rep. on Legal Ethics and Prof. Resp. (U. Pub. of Am.) Va:Op:38 (1988) (even when former client consented to attorney's representation of hospital in a collection case against the former client, attorney could not reveal or attempt to collect against personal injury settlement of former client because that information was learned during his representation). If the attorney's representation of the corporation is significantly compromised by the attorney's mandated continued loyalty to the employee, she may have to withdraw as the corporation's counsel, unless the corporation is willing and able to give informed consent to the attorney's conflicted representation.

the corporation at all, absent the employee's consent,[167] since the attorney withdrew because the employee's interests had become adverse to those of the corporation concerning the very matter for which she had been representing them both.[168]

The attorney may try to avoid being ethically constrained from continued representation of the corporation[169] by securing, as a precondition to her agreement to represent the employee, his consent that if she ceases being his attorney at some future point, she can continue as the corporation's counsel.[170] Model Rule 1.2(c) would seem to permit

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167. *See* MODEL RULES, *supra* note 13, Rule 1.9(a) ("A lawyer who has formerly represented a client in a matter shall not thereafter . . . represent another person in the same or a substantially related matter in which that person's interests are materially adverse to the interests of the former client unless the former client consents after consultation."). Consent by a former employee-client to the continued representation of the corporation is separate and distinct from his consent to use of his confidences. Thus, his agreement to the continued representation does not imply consent to harmful use of his confidences. *See* Westinghouse Electric Corp. v. Gulf Oil Corp., 588 F.2d 221, 229 (7th Cir. 1978) ("[C]onsent to the mere representation of a client with adverse interests does not amount to either consent to breach of confidential disclosure or to use of that information against the consenting party in litigation."); New Mexico Advisory Op. 1988-5, *reprinted in* II Nat'l Rep. on Legal Ethics and Prof. Resp. (U. Pub. of Am.) NM:Op:52 (1988) (noting that even if a husband who was a former client consents to an attorney's representation of his wife in a divorce action, the attorney must be careful not to use any confidential information provided by the husband); Virginia Legal Ethics Comm. Op. No. 1002 (1987), *reprinted in* II Nat'l Rep. on Legal Ethics and Prof. Resp. (U. Pub. of Am.) Va:Op:38 (1988) (concluding that even when former client consented to attorney's representation of hospital in a collection case against the former client, attorney could not reveal or attempt to collect against personal injury settlement of former client because that information was learned during his representation).

168. *See* MODEL RULES, *supra* note 13, Rule 1.9(a), *quoted supra* note 167 (former client's consent required when representation of another client with adverse interests concerns the same or a substantially related matter).

169. Besides the ethical constraint, the attorney should realize that the government prosecutor or the employee as a co-defendant or adverse witness could move to disqualify the attorney in any judicial proceeding on the basis of the divided loyalties owed to her present client, the corporation, and her former client, the employee. *See* United States v. James, 708 F.2d 40, 45 (2d Cir. 1983) (disqualifying defendant's attorney in part because the prosecution witness who had previously been represented by that attorney joined in the prosecutor's motion to disqualify); United States v. Vargas-Martinez, 569 F.2d 1102, 1104 (9th Cir. 1978) (disqualifying one defendant's counsel on government's motion where that counsel also had represented a co-defendant who became a prosecution witness); E.F. Hutton & Co. v. Brown, 305 F. Supp. 371, 401 (S.D. Tex. 1969) (disqualifying corporate counsel on motion of employee where law firm had previously represented employee in related matter).

170. *See* Birdzell, *supra* note 69, § 2.02, at 2-8 (recommending that where corporate counsel is representing both the entity and constituents, there be a clear understanding that in case of future conflict, the attorney will represent the entity even if advice had been given the constituent on the conflict issue); *cf.* U.S. Dep't of Justice, Form-DOJ-399 (*quoted in part supra* note 148).

an attorney to limit the scope of her representation in this manner.[171] However, the explanatory comment to this Rule notes that "the client may not be asked to agree to representation so limited in scope as to violate Rule 1.1 [on competence]."[172] Asking an employee to agree at the onset of representation by the corporate attorney to terms which include both an agreement to the termination of his own representation whenever his interests diverge from the corporation's, and also consent to the attorney's continuing representation of the corporation, might result in the representation being too limited. As in the situation of Model Rule 1.7 conflicts, the standard to be applied should be whether independent counsel would advise an employee to accept representation from someone who so obviously had primary loyalties to another person or who would be willing to end the representation precipitiously, notwithstanding the employee's need for continued legal advice.[173]

Seeking an employee's prior consent to the attorney's use of any and all information relating to the representation both during the attorney-client relationship and after its termination[174] would be an even more unacceptable practice.[175] While an employee could secure repre-

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171. *See* MODEL RULES, *supra* note 13, Rule 1.2(c) ("A lawyer may limit the objectives of the representation if the client consents after consultation."). *See also id.* comment, para. 4 ("The objectives or scope of services provided by a lawyer may be limited by agreement with the client or by the terms under which the lawyer's services are made available to the client.").

172. *Id.* comment, para. 5.

173. *Id.* Rule 1.7 comment, para. 5, *quoted supra* note 157. *See also* Vermont Ethics Op. 87-18, *reprinted in* II Nat'l Rep. on Legal Ethics and Prof. Resp. (U. Pub. of Am.) Vt:Op:20 (1988) (noting that consent of a former client is inappropriate where an attorney could not be loyal to both the former and present clients).

174. One commentator recommends that whenever corporate counsel will serve as the attorney for both the entity and constituents there be an agreement that communications to counsel are not confidential in relation to the entity, and that the entity has the right to make the information available to third persons if that is in its interests. *See* Birdzell, *supra* note 69, § 2.02, at 2-8. With such an agreement, counsel's continued representation of the corporation would commit no violation of confidentiality as to the information received from employees he once represented, since the information was always available to the entity. *Id.* at 2-9.

175. Securing such an agreement from an employee would give corporate counsel more than she would usually have if an attorney was jointly representing two parties in the same matter. Under normal circumstances, two persons who jointly consult an attorney waive their privilege as to each other on matters of mutual concern, but not as to third persons. *See* Ohio-Sealy Mattress Mfg. Co. v. Kaplan, 90 F.R.D. 21, 29 (N.D. Ill. 1980) ("[Joint clients'] confidential communications with the attorney, although known to each other, will of course be privileged in a controversy of either or both of the clients with the outside world." (quoting C. MCCORMICK, LAW OF EVIDENCE § 95 at 192 (1954 ed.)); FED. R. EVID. 503(d)(5) (Proposed Draft) (providing that there is no attorney-client privilege concerning communications made by joint clients "in an action *between* any of the clients")

sentation from another attorney, he could be irreparably harmed by the use of his confidences.[176] Nevertheless, Model Rule 1.2(c) by its terms

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(emphasis added); C. WRIGHT & K. GRAHAM, *supra* note 109, § 5505, at 557-79 (noting that a joint client may assert the attorney-client privilege against third persons and that any exception to the privilege may be limited to civil actions between the joint clients). Such an employee agreement would also give corporate counsel more than she could expect to receive if an employee had separate counsel and the two attorneys entered into a joint defense agreement on behalf of their respective clients. *See infra* notes 186-87 and accompanying text. Under such agreements, counsel agree to share information of mutual interest in the defense of their clients. *See* Sullivan & Africk, *supra* note 74, at 50-51; *Joint Defense Effort in Criminal Investigation: Sample Agreement*, 2 INSIDE LITIGATION, Aug. 1988, at 19. However, they also agree that such information cannot be used for any purpose other than the preparation of a joint defense, and in particular, they agree that the information is protected from disclosure to third parties. *See* Sullivan & Africk, *supra* note 74, at 50-51; *accord*, *In re* LTV Securities Litigation, 89 F.R.D. 595, 604 (N.D. Tex. 1981); *In re* Grand Jury Subpoena Duces Tecum Dated Nov. 16, 1974, 406 F. Supp. 381, 391 (S.D.N.Y. 1975).

Even if the securing of such an employee agreement were not objectionable because of the conflict implicit in the gain to the corporation, counsel must still be careful about the use of a client's or former client's confidences which could operate to his disadvantage. An employee might be willing to agree that his information be shared with the corporation, without being willing to have the information used by the corporation against him and without understanding that an agreement on information sharing includes such use. Absent the consent for the latter, the attorney would be in violation of the ethical rules. *See* MODEL RULES, *supra* note 13, Rule 1.8(b) (providing that attorney cannot use the client's confidences to his disadvantage without his consent); *id.* Rule 1.9(b) (same as to former client); *cf.* Westinghouse Electric Corp. v. Gulf Oil Corp., 588 F.2d 221, 229 (7th Cir. 1978) (providing that a client's general consent that an attorney can represent an adverse party does not mean there has been agreement that the client's confidences can be used against it).

176. For example, if the employee is called as a prosecution witness in a criminal case involving allegations against the corporation and/or its upper management offficials, he may find himself facing his former counsel on cross-examination. Possession of a former client's confidences allows an attorney to misuse that information in cross-examination. *See* United States v. Wheat, 813 F.2d 1399, 1402-03 (9th Cir. 1987), *aff'd*, 486 U.S. 153 (1988). Thus, the attorney may be able to ask questions eliciting facts that she learned only in the attorney-client relationship, *see* United States v. James, 708 F.2d 40, 44 n.3 (2d Cir. 1983); Stephens v. United States, 453 F. Supp. 1202, 1211 (M.D. Fla. 1978), *rev'd on other grounds*, 595 F.2d 1066 (5th Cir. 1979), or may be able to impeach the employee-witness using confidential information. *See* United States v. DeLuna, 584 F. Supp. 139, 144 (W.D. Mo. 1984); Alcocer v. Superior Court, 206 Cal. App. 3d 951, 958, 254 Cal. Rptr. 72, 75 (1988). Should his former counsel feel it necessary to take such actions in defending the corporation, the risks for the employee are that his responses may expose him to prosecution either because he is not immunized or because the matters elicited are outside the scope of his immunity. There could also be exposure to prosecution if the responses of the employee-witness are inconsistent with earlier testimony and such inconsistencies suggest he is committing or has committed perjury. *See* United States v. RMI Co. 467 F. Supp. 915, 919 (W.D. Pa. 1979) (noting that a witness' trial counsel needs to be fully familiar with the grand jury transcripts in order to assist the

does not proscribe such representational limitations.[177] In addition, Rule 1.8(b) contemplates that an attorney could seek a client's consent to use of his confidences even when that use would operate to his disadvantage.[178] The obvious question, however, is why an employee would so consent, especially if he had access to independent legal advice.

In sum, an employee may be greatly disadvantaged if an attorney seeks his consent to simultaneous representation of both himself and his corporate employer. The employee is likely to agree to such representation, but is unlikely to fully appreciate its risks. It is also unlikely that the attorney can provide an adequate explanation to the employee of the nature and extent of those risks at the outset of such representation. If the attorney presses for consent to simultaneous representation which includes an agreement giving the attorney permission to use his confidences and to terminate their relationship but continue representing the corporation, the employee could be losing his opportunity to have competent, independent representation aimed at fully protecting his interests.[179]

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witness to testify consistently with statements made to the grand jury). Finally, since corporate counsel knows her former client's personality, she may be able to conduct cross-examination in a particularly embarrassing or negative way so as to intimidate or confuse the employee-witness. Any such confusion, which is not cleared up, could also lead to charges of perjury.

177. *See* MODEL RULES, *supra* note 13, Rule 1.2(c), *quoted supra* note 171. In this regard it should be re-emphasized that the discussion in the Rule's comment, *see supra* note 172 and accompanying text, was not intended by the drafters of the Model Rules "to add obligations to the Rules" but only to provide guidance to them. *See id.* Scope, paras. 1, 9. Indeed, some states in adopting the Model Rules have not adopted the comments. *See, e.g.*, RULES OF PROFESSIONAL CONDUCT, N.J.L.J, July 19, 1984 (showing that the only comments published and adopted by the New Jersey Supreme Court were those stating the differences in New Jersey rules from the Model Rules). *See generally* 2 HAZARD & HODES, *supra* note 38, at App. 4 (appendix which provides state variations of the Model Rules begins with caveat stating: "Adopting states have taken different views with respect to the authoritativeness of the Official Comments").

178. *See* MODEL RULES, *supra* note 13, Rule 1.8(b) ("A lawyer shall not use information relating to representation of a client to the disadvantage of the client unless the client consents after consultation, except as permitted by Rule 1.6 [on confidentiality] or Rule 3.3 [on candor toward a tribunal].").

179. *See* United States v. Turkish, 470 F. Supp. 903, 910 (S.D.N.Y. 1978) (refusing to dismiss indictment against an employee despite allegations that his attorney had also represented employer because an implied waiver of any conflicts was found). However, even though a court might refuse to protect an employee from an ill-advised consent to conflicted representation, *see id.*, the attorney who secured the consent could still be subject to discipline for entering into a seriously conflicted representation in violation of the Model Rules. *See* C. WOLFRAM, *supra* note 58, § 8.2.4, at 417.

B. The Client Relationship and Attorney Duties When an Employee Has Separate Counsel

While an employee may communicate with or even be represented for a time by corporate counsel, the employee may also have contact with another attorney who has no obvious ties to the corporation—so-called separate counsel. Where the alleged illegality presents a high probability of conflict or an actual conflict exists between the interests of an employee and the corporation, the employee will no doubt have separate counsel. Separate representation can occur immediately or at some later point during the investigative stage. Because the effectiveness of the employee's representation by separate counsel can be affected by the actions of both corporate counsel and separate counsel, both attorneys must be aware of their responsibilities to ensure that the employee's representation is not compromised. This Part will therefore explore the respective duties of corporate and separate counsel toward an employee in this situation, especially where corporate counsel has referred the employee to particular separate counsel and/or the corporation will be paying that other counsel's attorney's fees.

1. Corporate Counsel's Duties Toward the Employee.—If corporate counsel knows before she communicates with a particular employee that his interests and those of the entity are adverse, corporate counsel cannot represent that employee personally, absent her compliance with the criteria of Model Rule 1.7.[180] Since such compliance is unlikely, the better course of action under those circumstances would be that she make clear to the employee that her client is the corporation and that she cannot be his attorney.[181] This course of action would also be appropriate if the attorney had reason to believe the employee's interests were potentially

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180. *See* MODEL RULES, *supra* note 13, Rules 1.7(a), 1.13(e); *supra* notes 118-24 and accompanying text.

181. *See* Oregon State Bar Op. 461 (1981), *reprinted in* Law. Man. on Prof. Conduct (ABA/BNA) Ethics Ops at 801:7107 (1980-85) (noting that a corporate attorney's loyalty to the entity would be compromised by representation of an employee if there is a conflict of interest); MODEL RULES, *supra* note 13, Rule 1.13(d) & comment (where there are adverse interests between an entity and its constituents, corporate attorney cannot represent the individual). Of course, if the corporate attorney believed she could ably represent both the employee and the corporation and fully disclosed to each of them the nature of the conflict and the risks entailed in her being the attorney for them both, and each consented to such conflicted representation, then arguably she could represent both the corporation and the employee. *See id.* Rule 1.7; *supra* notes 118-24 and accompanying text. However, the attorney would have to reasonably believe the representation of neither client would be disadvantaged by the joint representation, and this belief might not be possible if an actual conflict already existed. *See* MODEL RULES, *supra* note 13, Rule 1.7 comment, para. 5; *supra* notes 156-57 and accompanying text.

adverse,[182] or she learned at a later point during the investigation that the employee's interests were actually adverse.[183]

In such situations corporate counsel will typically provide the employee with a list of names of recommended separate counsel.[184] Whether or not the corporation pays for such representation,[185] the corporate counsel will be inclined to refer the employee to attorneys she believes will be willing to have a cooperative relationship with her as the corporation's attorney. Specifically, corporate counsel will be interested whenever possible in entering into a joint defense agreement with an employee's separate counsel. Such agreements are based on the joint defense rule which recognizes that open communication between co-defendants' attorneys on matters of common concern can assist in protecting each defendant's interests, and therefore, refuses to infer any waiver of an individual co-defendant's attorney-client privilege as to other persons from such disclosures.[186] A joint defense agreement between corporate counsel and an employee's separate counsel will enable corporate counsel, for example, to keep abreast of such developments as the employee's contacts with government prosecutors, his testimony before an administrative agency or a grand jury, and his defense strategies.[187]

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182. *See* MODEL RULES, *supra* note 13, Rule 1.7(b). *But see supra* notes 72-76 and accompanying text (discussing that Model Rule 1.13(d) only requires a corporate attorney to explain that her loyalties run solely to the entity when it is apparent the employee's interests are divergent from those of her client).

183. *See* MODEL RULES, *supra* note 13, Rule 1.13(d).

184. *See* Bennett, Rach & Kriegel, *supra* note 8, at 75, 81-82; Birrell, *supra* note 8, at 55; Sullivan & Africk, *supra* note 74, at 49. Even without corporate counsel's requiring that the employee choose a lawyer from the referral list, the chances are high that an employee will make such a choice. *See* Bennett, Rach & Kriegel, *supra* note 8, at 82; *infra* note 188 and accompanying text.

185. Where permitted by the corporate charter, the employee's attorney's fees may be paid by the corporation. *See* Bennett, Rach & Kriegel, *supra* note 8, at 82. Certain statutes also require or permit payment of an employee's attorney's fees. *See supra* note 137.

186. *See* United States v. McPartlin, 595 F.2d 1321, 1336 (7th Cir.), *cert. denied*, 444 U.S. 833 (1979); *In re* Grand Jury Subpoena Duces Tecum Dated Nov. 16, 1974, 406 F. Supp. 381, 388 (S.D.N.Y. 1975); Raleigh, *Attorney-Client Privileges: Implementing Safeguards to Protect Them*, 24 TRIAL, May 1988, at 45, 47. For an example of a joint defense agreement, see *Joint Defense Effort in Criminal Investigation: Sample Agreement*, *supra* note 175, at 19. *See also* Sullivan & Africk, *supra* note 74, at 50 (discussing what statements should be included in a joint defense agreement).

187. *See* Hunydee v. United States, 355 F.2d 183, 184-85 (9th Cir. 1966) (protecting under joint defense rule one defendant's statement that he would plead guilty); Continental Oil Co. v. United States, 330 F.2d 347, 350 (9th Cir. 1964) (protecting under joint defense rule attorneys' exchange of memoranda concerning information relating to their clients' appearances before a grand jury); *In re Grand Jury Subpoena Duces Tecum*, 406 F. Supp. at 384-85 (protecting under the joint defense rule memoranda concerning interviews and discussions related to a Securities Exchange Commission investigation and lawsuit). *See generally Privileged Communications*, *supra* note 15, at 1648-49.

Since the employee will be inclined to accept as his attorney a referral made by corporate counsel, rather than trying to find an attorney on his own,[188] corporate counsel must be careful that those attorneys she selects for the employee to consider will not compromise the effectiveness of the representation the employee will receive. Model Rule 4.4 could be applicable in this situation, in cautioning the corporate attorney not to use means that disadvantage the employee.[189] Once again, however, the attorney might be able to avoid discipline under this Rule if she argued that the substantial purpose of referring employees to cooperative lawyers was not to harm them, but rather was to advance her representation of her client, the corporation.[190]

Once the employee has secured separate counsel, he can still be harmed by corporate counsel unless she insures that her relationship with his attorney is not structured in a way that allows her to control or otherwise influence the attorney-client relationship that the separate counsel has with the employee. For example, if the corporation will pay for the employee's attorney's fees and corporate counsel is the corporate agent who authorizes such payment, she might be tempted to use her authority improperly, such as causing the timeliness of fee payments to be implicitly linked to particular instances of cooperation or non-cooperation by the employee's separate counsel.[191] Any such misuse of

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188. The reasons for such acceptance is at least two-fold. First, the employee probably has little experience or confidence in finding an attorney on his own. *See* Bennett, Rach & Kriegel, *supra* note 8, at 82 (noting that employees often seek suggestions concerning attorneys). Second, the employee will continue to be concerned about his image in the eyes of his employer, and will want to avoid looking non-cooperative, since he may perceive he is already "in trouble." *See supra* note 52 and accompanying text.

189. *See* MODEL RULES, *supra* note 13, Rule 4.4, *quoted supra* text accompanying note 99.

190. By indicating that an attorney "shall not use means that have no substantial purpose other than to embarrass, delay, or burden" another, Model Rule 4.4 seems to permit such an argument. *See id.; supra* note 100 and accompanying text.

191. Such an abuse of power by the corporate attorney could not only occur in the manner and speed with which fee payments are made to the employee's separate counsel, but also through the setting of fee levels. *See* United States v. Aiello, 814 F.2d 109, 112-14 (2d Cir. 1987) (observing that if the facts on remand demonstrated that one defendant's attorney was in a position to determine the level of attorney's fees for other defendants' counsel as well as whether such fees were paid, that attorney would have an impermissible conflict because of the control he would have over the other attorneys). Even if the corporation is not the payment source for the employee, the corporate attorney could make his willingness to provide information needed by separate counsel in representing the employee dependent on separate counsel's own cooperation. Another source of harm could occur if corporate counsel states or implies that any future referrals of other employees to the employee's separate counsel will depend on the amount of cooperation between separate counsel and corporate counsel concerning this employee's representation. *See infra* notes 200-02 and accompanying text.

power by the corporate attorney could directly or indirectly influence separate counsel's independent professional judgment on behalf of the employee. Since separate counsel cannot ethically permit such interference by one who pays or recommends her, such as a corporation,[192] the corporate attorney would commit professional misconduct if she induced separate counsel to allow the representation of the employee to be influenced by the corporation's interests.[193] Even if she could escape the charge of inducing separate counsel's violation,[194] arguably the corporate attorney who attempted to interfere with an employee's attorney-client relationship with other counsel could also be charged with conduct prejudicial to the administration of justice.[195]

Because corporate counsel's primary loyalties will lie with the corporation, an employee's vulnerability to corporate counsel's actions can continue unabated even after he secures independent representation. Absent corporate counsel's awareness of these issues, she can cause prejudice to the employee, as well as problems for both herself and the other attorney.

2. Separate Counsel's Duties Toward the Employee.—The employee embroiled in corporate illegalities will not enjoy the needed, fully independent representation from the attorney who is retained to provide him individual representation unless that attorney realizes that too close

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192. *See* MODEL RULES, *supra* note 13, Rule 1.8(f)(2) ("A lawyer shall not accept compensation for representing a client from one other than the client unless . . . there is no interference with the lawyer's independence of professional judgment or with the client-lawyer relationship"); *id.* Rule 5.4(c) ("A lawyer shall not permit a person who recommends, employs, or pays the lawyer to render legal services for another to direct or regulate the lawyer's professional judgment in rendering such legal services").

193. *See id.* Rule 8.4(a) ("It is professional misconduct for a lawyer to . . . violate or attempt to violate the rules of professional conduct, knowingly assist or induce another to do so, or do so through the acts of another . . . ."). Such inducement could also be charged if the corporate attorney was found to be the cause of separate counsel's providing payment for the future referrals. *See* discussion *infra* note 202 and accompanying text.

194. Since any such inducement must be done "knowingly", *see* MODEL RULES, *supra* note 13, Rule 8.4(c), it is possible that the corporate attorney could avoid a charge of professional misconduct if she made no overt statement concerning the criteria for future referrals to the separate counsel. However, the Model Rules define the term "knowingly" as "actual knowledge of the fact in question" including that "[a] person's knowledge may be inferred from circumstances," *see id.* Terminology, para. 5, and therefore the entire circumstances of an attorney's conduct would be examined in any such instance.

195. *See id.* Rule 8.4(d) ("It is professional misconduct to . . . engage in conduct that is prejudicial to the administration of justice."). While the scope of Rule 8.4(d) is not clear on its face and has been criticized as too vague, *see* 1 HAZARD & HODES, *supra* note 38, at 566-67, one court has held otherwise. *See* Howell v. State Bar, 843 F.2d 205, 208 (5th Cir.) (holding that the phrase "prejudicial to administration of justice" was neither overbroad nor vague on its face as case law, court rules, and "lore of profession" provide sufficient guidance), *cert. denied*, 109 S. Ct. 531 (1988).

a relationship between corporate counsel and herself can corrupt her professional judgment. Model Rules 1.8(f) and 5.4(c) warn separate counsel to guard against influence when the corporation has referred the employee[196] and/or is paying the employee's attorney's fees.[197] In addition, Rule 1.8(f) requires that an attorney who is being paid by another for her representation of a client must insure that her client is informed about the payment arrangement and consents to it.[198]

Assuming the employee's consent is secured, separate counsel must still be aware of the ways in which her representation of an employee might be influenced. For example, to protect against one form of influence when the corporation is to pay her fees, she should insist on a payment agreement that makes clear the level of her fees and the billing and payment circumstances in order to minimize any temptation by the corporation to control either her employee-client or her representation of the employee through the delay or withholding of fee payment.[199]

Besides guarding against any form of direct influence, the employee's attorney must also consider the effect on her loyalty to her client that

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196. *See* MODEL RULES, *supra* note 13, Rule 5.4(c), *quoted supra* note 192.

197. *See id.* Rules 1.8(f), 5.4(c) (both rules quoted *supra* note 192, requiring that an attorney not allow his independent judgment to be influenced by one who pays the attorney's fees of a client). Arguably the standard in Model Rule 1.8(f) for assessing the impact on the attorney's representation of influence by the one paying the fees is stricter than that in Model Rule 1.7(b) for assessing the effect of the lawyer's responsibilities to a third party. Rule 1.8(f) prohibits representation unless "there is no interference with the lawyer's independence of professional judgment or with the client-lawyer relationship," *see id.* Rule 1.8(f), while Rule 1.7(b) only prescribes representation if it "may be materially limited by the lawyer's [other] responsibilities." *See id.* Rule 1.7(b). *But see* 1 HAZARD & HODES, *supra* note 38, at 166-67 (arguing that no different standard was intended).

198. *See* MODEL RULES, *supra* note 13, Rule 1.8(f). *See also* United States v. Bernstein, 533 F.2d 775, 787-88 (2d Cir.) (affirming trial court's disqualification of employee's counsel who was paid by employer because consent was not knowing), *cert. denied*, 429 U.S. 998 (1976).

199. *Cf.* Cohen, *Drexel Puts Its Milken Defense Team on Strict Budget: $1,250,000*, Wall St. J., Oct. 4, 1989, § A, at 3, cols. 2-3 (reporting on Drexel Burnham Lambert's attempts to cut legal costs by imposing budgets on the law firms representing Drexel employees and by keeping "close tabs on consultants the lawyers hire, documents they copy and overtime they pay to secretaries and paralegals"). Separate counsel must also be aware that under many corporate statutes, indemnification of an employee is discretionary and contingent upon a determination that the employee acted in good faith and with a reasonable belief that his actions were in the best interests of the corporation. *See* DEL. CODE. ANN. tit. 8, § 145(b) (Supp. 1988). Separate counsel may therefore need to give specialized advice to the employee if the corporation is only willing to pay the employee's attorney's fees contingent on the employee's promise to repay such advance if it is subsequently determined that he does not meet the statutory criteria. *See id.* § 145(e); Birrell, *supra* note 8, at 57-58.

her interest in securing more employee referrals may have.[200] The temptation to respond to corporate counsel with inappropriate cooperation concerning separate counsel's representation of the employee[201] might be great because it is unlikely separate counsel would remain on the corporation's referral list if she was perceived as obstreperous. There is, however, a fine line between having a professional attitude of not being unnecessarily uncooperative and being overly cooperative so that corporate counsel will look favorably upon the manner in which separate counsel is representing the employee. If separate counsel were to provide inappropriate cooperation to the corporate attorney in response to the direct or indirect promise of more referrals, that cooperation could be viewed as an advance payment for the corporate attorney's recommendation of separate counsel in violation of Model Rule 7.2(c).[202]

This possibility that the loyalty of the employee's own attorney might be diminished by her desire to have other employee referrals also falls within the scope of Model Rule 1.7(b). That Rule prohibits a lawyer from representing a client if that representation would be materially limited "by the lawyer's own interests," unless the Rule's criteria are met.[203] It bears repeating that the critical criteria of Rule 1.7(b) are the determination by the attorney that the conflict will not adversely affect the representation and the securing of the client's consent, after full disclosure concerning the implications of the conflicted representation.[204] All of the issues concerning whether an employee can truly consent to such a conflict are also present in this situation.[205]

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200. *See* New York State Bar Ass'n Comm. on Prof. Ethics, Op. 584 (1987) (digested in 4 Law. Man. on Prof. Conduct (ABA/BNA) 27, 28 (1988) (observing that an attorney who accepts repeated referrals from one source might be tempted in her ethical duties and must therefore be particularly careful about influences on her professional loyalty and independence). Model Rule 1.7 requires the attorney to consider whether his own interests may materially limit his representation of a client. *See* Model Rules, *supra* note 13, Rule 1.7(b), *quoted supra* note 119; *see also infra* note 210. In situations where a criminal defendant has alleged on appeal that his representation was affected by conflicts associated with a lawyer's pecuniary interests, some courts have concluded that where those pecuniary interests are merely speculative, they will presume that the attorney has not subordinated his professional obligations to such personal financial interests. *See* Nance v. Benson, 794 F.2d 1325, 1328 (8th Cir. 1986); United States v. DiCarlo, 575 F.2d 952, 957 (1st Cir.), *cert. denied*, 439 U.S. 834 (1978).

201. An example of inappropriate cooperation would be entering into or remaining in a joint defense agreement, *see supra* notes 186-87 and accompanying text, when that agreement is not in the employee's best interests.

202. Such inappropriate cooperation would violate Model Rule 7.2(c) because the Rule provides that, except for limited exceptions not here relevant, "[a] lawyer shall not give anything of value to a person for recommending the lawyer's services . . . ." *See* Model Rules, *supra* note 13, Rule 7.2(c).

203. *See id.* Rule 1.7(b), *quoted supra* note 119.

204. *Id. See also* discussion *supra* notes 118-24 and accompanying text.

205. *See supra* notes 139-57 and accompanying text.

Concerning the nature of the lawyer's own interests that are contemplated within Rule 1.7(b)'s coverage, the Rule's comment emphasizes that it applies to situations where an attorney's other responsibilities or interests could affect her ability to "consider, recommend or carry out an appropriate course of action for the client."[206] Unfortunately the comment provides little guidance as to those attorney interests that can cause conflict with her client(s), resulting in detrimental limitation of the lawyer's representation.[207] There is a single paragraph under the heading "Lawyer's Interests" that begins by making the general statement: "The lawyer's own interests should not be permitted to have an adverse effect on representation of a client."[208] Neither of the two specific examples described in this comment paragraph alert an employee's attorney to the type of conflict that can involve an attorney's self-interest in the client-referral situation,[209] nor is there discussion in that section concerning the conflicts issue associated with the payment of a client's fees by another.[210]

Notwithstanding this lack of emphasis in the Model Rules as to ways in which separate counsel's zealous representation of an employee-client might be compromised, she must consider carefully whether a conflict does exist between her own interests and those of her client. If

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206. *See* MODEL RULES, *supra* note 13, Rule 1.7 comment, para. 4.

207. *See id.* at paras. 1-15.

208. *Id.* at para. 6.

209. The first example provides that "a lawyer's need for income should not lead the lawyer to undertake matters that cannot be handled competently and at a reasonable fee." *Id.* (citing to Model Rule 1.1, 1.5). The second example concerns conflicts that can arise because of the attorney's business interests. *Id.*

210. In another section of the Model Rule 1.7's comment and without highlighting how the situation epitomizes an attorney's self-interest, it is observed: "A lawyer may be paid from a source other than the client, if the client is informed of that fact and consents and the arrangement does not compromise the lawyer's duty of loyalty to the client." *Id.* para. 10 (citing Rule 1.8(f)). As an example of such payment from another source, the comment recognizes that a corporation may pay for separate representation of its employees in a controversy where the entity and the constituents have differing interests. *Id.*

Notwithstanding this lack of focus within the explanatory discussion of Model Rule 1.7(b) for what can be a most insidious self-interest, some commentators believe that Model Rule 1.8(f) "is largely superfluous, for its treatment of situations in which one party pays a lawyer to provide services for another adds little to Rule 1.7(b)." 1 HAZARD & HODES, *supra* note 38, at 166. This Article cannot agree with that opinion unless the official comment to Model Rule 1.7 is amended to include the pointed observation made by those commentators in their discussion of Rule 1.7(b): "In each [case in which a third party pays for a lawyer's service to a client] a danger exists that the lawyer will tailor . . . her representation to please the third party rather than the client. The distraction can become acute if the lawyer hopes to be rehired on behalf of other clients, and so curries favor with the payor of [her] fee." *Id.* at 141.

she determines any such conflict exists, she must also consider carefully whether she will be able to make decisions concerning the employee's representation in an impartial manner which is truly in his best interests and not in her own.

Given that conflicts could arise in this situation, under Model Rule 1.7 separate counsel must not only reasonably believe that her representation of the employee will not be adversely affected, but also must secure his consent after consultation.[211] As part of that consultation, not only would she have to inform the employee that she does hope more referrals would be made to her, but also she would have to explain how that desire could potentially affect her decisions concerning his representation.[212] Additionally, if separate counsel does receive additional referrals from the corporation on the same matter, there might be a need to discuss with both the original employee-client and the new referral how their individual interests are or could become in conflict and what the effect would be on their individual representations, as well as to secure their informed consents.[213]

Regardless of whether an employee was referred to separate counsel or found the attorney on his own, separate counsel must consider carefully the interests of the employee. One situation requiring such special consideration could occur if the employee was represented for a while by corporate counsel, with the decision to secure separate counsel having been made when a conflict with the corporation became apparent. Since the reason the employee secured separate counsel was the divergence of his and the corporation's interests, the need to protect the employee's interests may be acute given that corporate counsel had a confidential relationship with him.[214] For example, where the employee had a former

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211. *See* MODEL RULES, *supra* note 13, Rules 1.7(b)(1), (2); *supra* note 139 and accompanying text.

212. A lawyer's duty to inform the client about a potential conflict arising from the lawyer's own self-interest is more exacting than her duty to explain other forms of conflict. *See* Stanley v. Board of Professional Responsibility, 640 S.W.2d 210, 211-12 (Tenn. 1982); Law. Man. on Prof. Conduct (ABA/BNA) at 31:507 (1984). While the author is doubtful that lawyers are having such consultations with their clients, an attorney in such a representation situation needs to be more aware that her interest in additional referrals does create conflicts, as well as to realize that Model Rule 1.7(b) requires her to consider the effect of that type of personal interest on her representation. *See* MODEL RULES, *supra* note 13, Rule 1.7(b)(1). The Rule also intends by its requirement of client consent after consultation to give the client a certain level of choice and control concerning his own representation. *See id.* Rule 1.7(b)(2). *See also id.* Rule 1.2(a) & comment, para. 1 (requiring that the lawyer allow the client to make decisions concerning the representation).

213. *See* MODEL RULES, *supra* note 13, Rule 1.7(b).

214. Where there has been an attorney-client relationship, many courts presume confidential information has been provided by the client to the attorney, absent a showing

representation relationship with corporate counsel, his new attorney will want to determine whether the employee should agree or disagree to the corporate attorney's continued representation of the corporation.[215] Separate counsel should also monitor whether the employee will need to waive or enforce corporate counsel's duty to maintain his confidences and not use them to his disadvantage in the course of her continued representation of the corporate client.[216] This monitoring will be especially necessary if the employee is either a witness against or a co-defendant with the corporation in a criminal case. If necessary, the employee can assert these interests in the form of a pre-trial motion to disqualify corporate counsel.[217]

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that no confidences were given. *See* United States v. Shepard, 675 F.2d 977, 980 (8th Cir. 1982); United States v. Provenzano, 620 F.2d 985, 1005 (3d Cir.), *cert. denied*, 449 U.S. 899 (1980); United States v. Standard Oil Co., 136 F. Supp. 345, 354-55 (S.D.N.Y. 1955).

215. Under Model Rule 1.7, corporate counsel should have secured the employee's consent for the original simultaneous representation of both the corporation and the employee. *See supra* notes 123-24 and accompanying text. Arguably, however, once the employee became a former client, his consent was also needed for the attorney to continue to represent the corporation if the corporation's interests were materially adverse to those of the employee. *See* MODEL RULES, *supra* note 13, Rule 1.9(a); *supra* notes 167-68 and accompanying text; *but see* discussion *supra* note 163. Even if such consent(s) were secured, the employee's separate counsel must consider whether an argument should be made concerning the informedness and voluntariness of that consent. *See supra* notes 169-78 and accompanying text.

216. For examples of when such protection could be needed, see discussion *supra* note 176. *See also* MODEL RULES, *supra* note 13, Rule 1.9 (forbidding an attorney's use of representational information without the consent of a former client). The former client's consent refusal can result in disqualification of the corporate counsel. *See* United States *ex rel.* Stewart v. Kelly, 870 F.2d 854, 858 (2d Cir. 1989) (lack of consent from witness for his former attorney to cross-examine him as part of representation of defendant was part of basis of attorney's disqualification); United States v. Vargas-Martinez, 569 F.2d 1102, 1104 (9th Cir. 1978) (same).

217. Courts may take seriously the objection of a former client to the representation of one with adverse interests. *See* United States v. James, 708 F.2d 40, 45 (2d Cir. 1983) (considering as an important factor in its decision to disqualify defendants' attorney that the prosecution witness who had previously been represented by that attorney joined in the prosecutor's motion to disqualify). However, some courts have to be convinced that the attorney did in fact represent the individual alleging the conflict and that confidences were provided in the course of the representation. *Compare id.* at 42 (disqualifying defendant's counsel who had also been attorney for prosecution witness over a period of 7 years), *with* United States v. FMC Corp., 495 F. Supp. 172, 174-75 (E.D. Pa. 1980) (refusing to disqualify corporate defendant's counsel where law firm had also represented employee-witnesses before grand jury but where those former clients stated they had given no confidential information to the firm's lawyer). *But see* E.F. Hutton & Co. v. Brown, 305 F. Supp. 371, 395 (S.D. Tex. 1969) (concluding that an attorney may not defend a motion to disqualify by showing she received no confidences because not only confidences but also the attorney-client relationship itself deserves protection); Western Continental

An employee may also need his separate counsel to move to disqualify corporate counsel from continued representation of the entity and to maintain the confidentiality of his conversations even where no formalized attorney-client relationship ever existed between the corporate attorney and the employee. If the employee had reason to believe he had an attorney-client relationship with the corporate attorney, his interests may be protectible.[218] However, such protection for the employee is less likely where there was no formal relationship.[219] In either case, whether there was an express or implied relationship between corporate counsel and the employee, the employee needs impartial, zealous representation by separate counsel who will not lightly advise the employee to ignore or waive his interests.

IV. Proposals to Strengthen the Duties of Attorneys Who Deal With Employees

An employee is very vulnerable in a relationship with an attorney who represents his corporate employer. Even if she decides to provide the employee with individual representation while representing the corporation, his interests may not be fully protected because of the serious conflicts which can impact on such multiple representation. Moreover, retaining separate counsel for the employee will not necessarily result in fully loyal representation because that separate attorney may also be subject to conflicts, both personal in nature and arising out of her representation of other employees. Because these conflicts can exist, no attorney may be zealously protecting the employee's interests, and the lower-echelon employee may be poorly prepared to protect himself.

This Article has demonstrated that the Model Rules do not provide sufficient guidance to attorneys concerning the special risks faced by a corporate employee. It is vital for the employee that the Rules provide such guidance because during a corporation's initial, internal investigation the Rules are the only constraint on the manner in which an individual attorney conducts the representation of her client or clients and on whether that representation harms non-clients.[220] This Part therefore proposes several changes to these Rules in an effort to provide more protection for the employee. The purpose of the proposed changes is

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Operating Co. v. Natural Gas Corp., 212 Cal. App. 3d 752, 761-62, 261 Cal. Rptr. 100, 104-05 (1989) (same); Model Rules, *supra* note 13, Rule 1.9 (making the securing of a former client's consent to an attorney's representation of another having adverse interests in the same or a similar matter a separate requirement from the protection of the former client's confidences).

218. *See supra* notes 104-09 and accompanying text.

219. *See id.*

220. *See supra* note 22 and accompanying text; *infra* note 221.

to minimize the abuse of employees by making the Rules state more clearly that both corporate and separate counsel must treat any employee in a manner that recognizes his special interests.[221]

A. The Unrepresented Employee and Corporate Counsel—Model Rules 1.13(d), 3.4(f) and 4.3

Model Rule 1.13(d) does not require a corporate attorney to immediately clarify her role when she approaches an unrepresented employee for an interview during the course of an investigation,[222] notwithstanding that an employee's misunderstanding of the attorney's role can cause him grave disadvantage. The Rule therefore fails to adequately recognize the risks for the employee and gives a corporate attorney the impression that she can conduct an intensive investigative interview of an unrepresented employee without first fully clarifying that the information the employee gives can be used in the corporation's interest, even if that interest is adverse to the employee's interest.[223] Additionally Model Rule 3.4(f) permits the corporate attorney to ask an employee to refrain from talking to a government prosecutor without providing the employee with information sufficient for him to evaluate whether complying with that

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221. Making such changes should provide an employee with increased protection but might not totally resolve his dilemma. The employee could still be vulnerable because, while the Model Rules contemplate that attorneys who do not live up to those standards will be disciplined, *see* MODEL RULES, *supra* note 13, Scope, para. 5, Rule 8.4(a); *Standards for Imposing Lawyer Sanctions* (ABA Center for Prof. Resp. 1986), *reprinted in* Law. Man. on Prof. Conduct (ABA/BNA) at 01:801-51 (1986), the Rules offer no direct assistance to an employee who has been harmed because an attorney has failed to consider his interests appropriately. *See* MODEL RULES, *supra* note 13, Scope, para. 6 ("Violation of a Rule should not give rise to a cause of action nor should it create any presumption that a legal duty has been breached."). Thus, even if an employee could demonstrate that an attorney should be disciplined for violation of a Model Rule, discipline might be an inadequate remedy for the individual and no other might be available, especially if no attorney-client relationship existed between the employee and the attorney who committed the Rule violation. *See* Hackett v. Village Court Assoc., 602 F. Supp. 856, 858 (E.D. Wis. 1985) (in the absence of special circumstances, an attorney cannot be held liable for the manner in which she conducts her representation to anyone other than her client); McGlone v. Lacey, 288 F. Supp. 662, 665-66 (D.S.D. 1968) (same). As to ways in which the employee can be injured by the corporation's attorney, see *supra* notes 10-16, 38-40, 56, 169-79, 191 and accompanying text. *See also* DeLuca v. Whatley, 42 Cal. App. 3d 574, 117 Cal Rptr. 63 (1974) (affirming dismissal of complaint against a defense attorney brought by individual claiming injury because he was called as a witness at a preliminary criminal hearing by the defendant's attorney without the attorney advising him of the possibility of criminal prosecution if he incriminated himself, and because his testimony caused him to be charged with crimes, although he was acquitted).

222. *See* MODEL RULES, *supra* note 13, Rule 1.13(d); *supra* notes 72-83 and accompanying text.

223. *See supra* notes 10-16, 28-29, 69-71 and accompanying text.

request best serves his personal interests.[224] The Rules thus set different standards for an attorney's conduct with an unrepresented employee than with other unrepresented individuals, and give virtually no recognition to the fact that the employee personally may be greatly disadvantaged if the attorney is permitted to consider only the corporation's interests.

The Rules which govern a corporate attorney's ethical conduct toward the unrepresented employee must provide more consideration of the personal risks for that individual by requiring more protection of the employee's interests in this common situation. Such greater protection can best be achieved by requiring more candor on the part of the corporate attorney so that the employee can fully comprehend the situation. Thus, a logical amendment would be to conform Model Rule 1.13(d) to Rule 4.3's requirement that any misunderstanding about the lawyer's role be corrected.[225] While such an amendment would eliminate any perception that unrepresented employees could be treated any differently than other unrepresented persons, this change does not go far enough because it still requires the attorney to decide whether or not the individual has a misunderstanding of her role. A better approach would strengthen the language of Model Rule 4.3 to emphasize the underlying purpose of requiring disclosure about the attorney's role, which would include her client's position.[226] Model Rule 4.3 should therefore be modified to mandate that any attorney who contacts any unrepresented person must immediately explain exactly where her loyalties lie in the situation, as well as her client's interests. Model Rule 1.13(d) should then be modified to require conduct in conformance with Rule 4.3, if the employee is unrepresented, and Rule 4.2, if he has separate counsel.[227]

For these reasons, Model Rules 4.3 and 1.13(d) should be amended as follows:

Model Rule 4.3[228]

> In dealing on behalf of a client with a person who is not represented by counsel, a lawyer shall [not state or imply that the lawyer is disinterested. When the lawyer knows or reasonably should know that the unrepresented person misunderstands the lawyer's role in the matter, the lawyer shall make reasonable efforts to correct the misunderstanding] *assume that the unre-*

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224. *See supra* notes 84-91 and accompanying text.

225. *See* Model Rules, *supra* note 13, Rule 4.3; *supra* notes 77-80 and accompanying text.

226. *See supra* notes 78-80 and accompanying text.

227. *See* Model Rules, *supra* note 13, Rule 4.2, *quoted supra* note 92.

228. In these proposed amendments, additions are in italics, and deletions are bracketed.

presented person does not understand the lawyer's role in the matter, and the lawyer shall immediately and carefully explain to the unrepresented person the lawyer's role and the client's interest in the matter.[229]

Model Rule 1.13

. . . .

(d) In dealing with an organization's directors, officers, employees, members, shareholders or other constituents, a lawyer shall [explain the identity of the client when it is apparent that the organization's interests are adverse to those of the constituents with whom the lawyer is dealing] *immediately ascertain whether the constituent is personally represented or unrepresented, and the lawyer shall thereafter conform any dealings with the constituent to rule 4.2 or 4.3, whichever is applicable.*

Besides these changes to these Rules, the comment for Model Rule 4.3 should be expanded to make clear that the mandated explanation of the attorney's role must be tailored to the type of misunderstanding an unrepresented individual could have. For example, if it is unlikely that a lower-echelon employee would appreciate how his interests could differ from those of his corporate employer, the attorney's explanation of her role and her corporate client's interest in the matter must be sufficient to provide such an employee with that understanding. Moreover, in order that attorneys will better recognize that such a situation is within the scope of Rule 4.3, the Rule's comment should use a meeting by corporate counsel with an unrepresented employee as one of its descriptive examples.[230] The comment for Rule 1.13(d) should also be

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229. This language is similar to that of Louisiana's version of Model Rule 4.3. *See* Louisiana State Bar Rule 4.3, *quoted in* 2 Hazard & Hodes, *supra* note 38, App. 4, at LA:4. The state bar committee which proposed this variation adopted by Louisiana believed that a lawyer must assume an unrepresented person would not understand the situation. Telephone interview with Wood Brown III, immediate past president of Louisiana State Bar and member of rule revision committee (July 28, 1989). Indeed, some were of the opinion that the warning should go even farther and that the unrepresented individual should be told in so many words, "Look I'm the enemy. Don't assume I'm your friend. If possible, I'll use what you tell me against you." *Id.*

230. Such an example was part of the draft comment to Rule 1.13(d). *See* Model Rules of Professional Conduct, Rule 1.13 (Final Draft) comment "Clarifying the Lawyer's Role," *reprinted in* 68 A.B.A.J. 1411 (1982). This draft comment stated in pertinent part:

> The fact that the organization is the client may be quite unclear to the organization's officials and employees. . . . The result of such a misunderstanding can be embarrassing or prejudicial to the individual if, for example, the situation is such that the attorney-client privilege will not protect the individual's communications to the lawyer. . . . [I]f the lawyer is conducting an inquiry involving

rewritten to emphasize that the employee's interests and rights cannot be ignored by the corporate attorney, and the comment should cross-reference Rule 4.3.[231]

Changes to Model Rule 3.4(f) are also needed in order to further ensure that the employee has sufficient information to protect himself. Thus, this Rule should also incorporate a requirement that an attorney explain her role and the client's situation to an employee before requesting that employee to refrain from talking to the other party. Such a requirement would lessen the chance that the employee would not understand that the basis for the request was grounded in protecting the corporation's interests and not his own.

Model Rule 3.4

A lawyer shall not:

. . . .

(f) request a person other than a client to refrain from voluntarily giving relevant information to another party unless:

(1) the person is a relative or an employee or other agent of a client; [and]

(2) *the lawyer has fully explained to the person the lawyer's role and the client's interest in the matter; and*

(3) the lawyer reasonably believes that the person's interests will not be adversely affected by refraining from giving such information.

Each of these changes in Model Rules 1.13(d), 3.4(f) and 4.3 require a corporate attorney to provide an unrepresented employee with information that permits the individual to better protect his own interests. Given that there is no other protection within our justice system for the employee at that time, these requirements are not too much to ask of the corporate attorney when balanced against the risks for the employee who, because he was given no such forewarnings, misunderstands that the attorney is not going to protect him.

B. The Employee as a Client of Corporate Counsel—Model Rules 1.2(c), 1.8(b), 1.7 and 1.9

An employee may be willing to consent to representation by corporate counsel because he sees his interests as aligned with his employer, the

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possible illegal activity, a warning might be essential to prevent unfairness to a corporate employee. See also Rule 4.3.

Id. See also Michigan Rules of Professional Conduct, Rule 1.13(d) & comment (1988) (adopting the originally proposed version of Model Rule 1.13(d) and comment).

231. *See supra* note 230 for quotation of draft comment to Model Rule 1.13(d). *See also* Michigan Rules of Professional Conduct, Rule 1.13(d) & comment (1988) (adopting the originally proposed version of Model Rule 1.13(d) and comment).

corporation. However, it is unlikely that the employee's view is a fully informed one, in part because of the employee's legal inexperience and in part because even a lawyer would find it difficult to know whether potential conflicts will ever become actual.[232] Because there is a strong possibility for overbearing in the situation where a corporation's counsel asks for an employee's consent in connection with joint representation of him and the entity,[233] Model Rules 1.2(c), 1.7, 1.8(b) and 1.9 should be amended to ensure that any consent secured from an employee is as voluntary and as well informed as is possible under the circumstances.

Each of these Model Rules permits certain conduct by an attorney if the client consents after consultation. Rule 1.2(c) permits limits on the scope of representation;[234] Rule 1.7 allows representation of one or more clients despite the existence of a conflict between the clients or with the attorney;[235] Rule 1.8(b) permits the attorney to seek the client's consent to the disadvantageous use of his confidences;[236] and Rule 1.9 permits both subsequent representation of a client with interests adverse to a former client and use of that former client's information to his disadvantage.[237] Given that the employee's consent to one or more of these situations could work to his detriment, each of these rules needs to be amended to ensure adequate safeguards of employee interests. Appropriate safeguards would include a recommendation and an opportunity for the employee to consult other, independent counsel[238] and

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232. *See supra* notes 146-55 and accompanying text.

233. Some commentators argue that an attorney should not enter into multiple representation in a criminal case where one client can dominate the other. *See* 1 HAZARD & HODES, *supra* note 38, at 134-35 (Illustrative Case (b)).

234. *See* MODEL RULES, *supra* note 13, Rule 1.2(c); *supra* notes 169-71 and accompanying text.

235. *See* MODEL RULES, *supra* note 13, Rule 1.7; *supra* notes 117-19 and accompanying text.

236. *See* MODEL RULES, *supra* note 13, Rule 1.8(b); *supra* note 178 and accompanying text.

237. *See* MODEL RULES, *supra* note 13, Rule 1.9; *supra* notes 163-68 and accompanying text.

238. Use of independent counsel would comply with the concern of the appellate court in United States v. Wheat, 813 F.2d 1399, 1403 (9th Cir. 1987) (" 'Because the conflicts are often subtle it is not enough to rely upon counsel, who may not be totally disinterested, to make sure that each of his joint clients has made an effective waiver' " (quoting United States v. Lawriw, 568 F.2d 98, 104 (8th Cir. 1977), *cert. denied*, 435 U.S. 969 (1978))), *aff'd*, 486 U.S. 153 (1988). *See also* United States v. Friedman, 854 F.2d 535, 572-74 (2d Cir.) (finding defendant's waiver to conflict-free representation sufficient in part because he had had time to consult with independent counsel), *cert. denied*, 109 S. Ct. 1637 (1988); United States v. Iorizzo, 786 F.2d 52, 59 (2d Cir. 1986) (finding defendant's waiver to conflict-free representation to be invalid in part because the defendant was not given time to consider the issue or consult with independent counsel);

a requirement that the consent be in writing.[239] Thus, the proposed amendments would be similar to requirements which the Model Rules already provide in another situation where the potential for domination is significant, that of an attorney entering into business relations with his client.[240] The additional language that should be appended would be as follows, using Model Rule 1.7 as an example:

Model Rule 1.7

. . . .

(c) When representation is undertaken of multiple clients in a single matter who are already in a relationship with each other in which one client could overbear the other, such as could occur between employer and employee, the consultation and consent required by this rule shall include:

(1) full disclosure and explanation of any actual or potential conflict of interest, the implications of the common representation, and the advantages and risks involved;

Alcocer v. Superior Court, 206 Cal. App. 3d 951, 955, 254 Cal. Rptr 72, 73 (1988) (on suggestion of the court, independent counsel retained to advise the defendant of risks of being represented by an attorney who had divided loyalties).

Of course, requiring that an employee be told he can consult other, independent counsel and be given an opportunity to do so raises the issue of who will pay for that independent consultation. If the independent counsel is paid by the corporation, then the same conflicts are arguably present that are present when any attorney for an employee is paid by the corporation. *See supra* notes 191, 197-99 and accompanying text. However, since the scope of representation by the consulting attorney would be quite limited, both in duration and scope, the temptation to favor the corporation over the employee would be less pronounced. Thus the independent counsel should be able to provide the necessary advice without having the corporation's payment of her fee adversely affect the representation. If the employee has to pay for consultation with independent counsel, he might decide not to avail himself of that opportunity. However, if he declines the opportunity after hearing that a conflict exists and that independent counsel could provide unbiased guidance on whether his representation by conflicted counsel would be detrimentally limited, the employee's choice should be respected. The point of this Article's proposals are to empower the employee to the greatest extent possible by requiring that he be provided with adequate information on which to base his decisions.

239. Requiring that the consent be in writing would protect not only the client, but the attorney as well. *See* Martyn, *Informed Consent in the Practice of Law*, 48 Geo. Wash. L. Rev. 307, 346-47, 350-51 (1980) (within a proposed statute codifying a cause of action for an attorney's failure to adequately inform her client, a client's consent in writing which included a statement of legal and practical consequences would create a presumption of disclosure).

240. *See* Model Rules, *supra* note 13, Rule 1.8(a) (requiring, in situations where an attorney enters into a business transaction with her client, that the terms be fair for the client, provision to the client of an understandable and complete written statement of those terms, opportunity for the client to consult independent counsel, and written consent by the client).

(2) advice to each client in writing that the client may seek the advice of an independent lawyer of the client's own choice, and a reasonable opportunity for each client to do so; and

(3) consent in writing by each client to the multiple representation.

The amendment to Model Rule 1.9 would track the Rule 1.7 proposal by requiring that the consent of a non-dominant member of an existing relationship concerning a conflict of interest be secured in a more careful manner.[241] There would also need to be appropriate changes to the explanatory comments for both Model Rules 1.7 and 1.9. In particular, there should be a more coherent discussion in the comment to Rule 1.7[242] and some mention in Rule 1.9's comment of the conflicts that perennially exist between the corporation and its employees. There should also be much more emphasis in the comment to Rule 1.7 about the manner in which both corporate and separate counsel can have personal conflicts that impact on their ability to loyally represent an employee.[243]

Changes to Model Rules 1.2(c) and 1.8(b) to achieve conformity with the proposed specialized consent requirement might best be handled by an amendment by which each cross-references to the other Rules. The need to comply with the specialized consent format would depend on whether conflict of interest issues were involved. The proposal for Rule 1.2(c) is set out in the text and the similar change for Rule 1.8(b) is in an accompanying footnote:[244]

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241. For Model Rule 1.9, the following language should be added as a new final subsection:

(c) If the lawyer seeks to represent a person who is already in a relationship with a former client in which that other person could overbear the former client, such as could occur between employer and employee, the consultation and consent of the former client required by this rule shall include:

(1) full disclosure and explanation of any actual or potential conflict of interest between the former client and the other person, the implications of the contemplated representation and/or the use of the former client's representational information, and the advantages and risks for the former client;

(2) advice to the former client in writing that the former client may seek the advice of an independent lawyer of the former client's choice, and a reasonable opportunity for the former client to do so; and

(3) consent in writing by the former client to the representation of the other person and/or the use of the former client's representational information.

242. In this regard the Model Rule 1.7 comment should at minimum better interrelate its section dealing with the lawyer's own interests and the section discussing the conflict arising from another paying for a client's attorney's fees. *See supra* notes 203-10 and accompanying text (discussing the present weaknesses in these sections). A cross-cite to Rule 1.8(f) would also be appropriate.

243. *See supra* notes 135-38, 200-02 and accompanying text.

244. Model Rule 1.8(b) should be amended as follows:

Model Rule 1.2

. . . .

(c) A lawyer may limit the objectives of the representation if the client consents after consultation. *If the limits on the representation are related to any actual or potential conflict of interest under rules 1.7, 1.8 or 1.9, the required consultation and consent shall comply with the consent and consultation defined in that relevant applicable rule.*

Appropriate changes to these Rules' explanatory comments should also be made. For example, the comment for Model Rule 1.2(c) would benefit from an incorporation of the statement in the comment to Rule 1.7 that a lawyer should not ask for consent when an independent attorney would conclude the individual should not agree to representation under those circumstances.[245]

These changes in Model Rules 1.2(c), 1.7, 1.8(b) and 1.9 are each designed to provide an employee with more information as well as to ensure that a recommendation is made and an opportunity given to get independent advice. While the amendments will not guarantee that an employer will not still try to dominate an employee, they do provide a format that should assist in diminishing that control. They also alert lawyers to the issue and require them to take steps to better protect employees. Following this format will also protect the lawyer and his client should there be later challenges to the validity of an employee's consent.

C. *The Employee as a Referral Client—Model Rules 1.7, 1.8(f) and 1.9*

An employee who is referred by corporate counsel to separate counsel would obviously benefit from ethical rules which conspicuously remind both corporate counsel and his own attorney of the more subtle conflicts underlying the representation relationship, especially when the separate counsel is being paid by the corporation.[246] In this regard and as already

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A lawyer shall not use information relating to representation of a client to the disadvantage of the client unless the client consents after consultation, except as permitted or required by rule 1.6 or rule 3.3. *If the consent for use of confidential client information is sought in connection with any actual or potential conflict of interest under rules 1.7, 1.8 or 1.9, the required consultation and consent shall comply with the consent and consultation defined in that relevant applicable rule.*

245. *See* Model Rules, *supra* note 13, Rule 1.7 comment, para. 5, *quoted supra* note 157.

246. *See supra* notes 191-202 and accompanying text.

suggested, Model Rule 1.7 should more clearly highlight in its explanatory comment the inherent personal conflicts for an attorney that can exist in this situation.

Model Rule 1.8(f) does allow a corporation's payment of an employee's attorney's fees if the client consents after consultation and the lawyer's professional independence is ensured.[247] As with the other rules involving a client's consent, Rule 1.8(f) would better protect the employee's individual interests if its consent feature was strengthened to also require that the individual's agreement be in writing as well as that there be an opportunity to consult independent counsel. With those changes the Rule would read as follows:

> *Model Rule 1.8*
>
> . . . .
>
> (f) A lawyer shall not accept compensation for representing a client from one other than the client unless:[248]
>
> *(1)* there is no interference with the lawyer's independence of professional judgment or with the lawyer-client relationship; [and]
>
> *(2)* information relating to representation of [a] *the* client is protected as required by rule 1.6;[249] *and*
>
> *(3)* the client consents after consultation. *If the client and the person who is providing compensation are already in a relationship with each other in which that other person could overbear the client, such as could occur between an employer and employee, or if the client was referred to the lawyer by the person who is providing the compensation (or by that person's agent) and the lawyer could receive referrals of other clients in the same matter, the consultation and consent required by this rule shall include:*
>
> *(i) full disclosure and explanation of every actual or potential conflict of interest the client may have with either the lawyer or the person providing the compensation, the implications of any such conflict, and the advantages and risks of the contemplated representation;*
>
> *(ii) advice to the client in writing that the client may seek the advice of an independent lawyer of the client's own choice,*

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247. *See supra* notes 197-98 and accompanying text.

248. For purposes of clarity, the order of the subsections has been altered in the proposal concerning Model Rule 1.8(f). In the present version the subsection concerning the client's consent is first. In the proposed amendment, the consent subsection has been placed last. Except for the change in order, no other changes have been made to the Rule's other two subsections.

249. Model Rule 1.6 concerns confidentiality of client information.

and a reasonable opportunity for the client to do so; and
(iii) consent in writing by the client to the representation and the payment by the other person.

As with the similar changes proposed for the earlier discussed Model Rules, this amendment of Rule 1.8(f) will start off the relationship with separate counsel on the right foot. If counsel follows the recommended consent format, the employee will be fully informed about any possible conflict of interest that might adversely affect the representation. Besides these changes to the Rule itself, additional discussion in the Rule's comment concerning the issues underlying subsection (f) would be useful in helping attorneys become aware of this very common issue.

Finally, an employee who is referred by corporate counsel to separate counsel after having already received representation by corporate counsel will obviously benefit from the already discussed proposal concerning Model Rule 1.9 which requires more formalities in order to secure consent to the new or continued representation of a person with adverse interests or for the use of a former client's confidences. These added consent requirements will assist the employee's separate counsel in protecting the client's interests, especially the use by corporate counsel of the employee's confidences.

V. Conclusion

Corporate employees clearly have important personal interests at stake when their corporation's activities come under criminal investigation by government officials. Whenever an employee communicates with corporate counsel concerning his participation in any alleged illegalities, the employee may jeopardize his personal constitutional rights not to incriminate himself and to have effective, independent representation. Unfortunately the lower-echelon employee is often unaware of these risks and is unlikely to appreciate that the corporate attorney has no loyalty to him or that he may need the aid of independent counsel.

Given the great likelihood that conflicts of interest will exist between the corporation and its employees in criminal cases, this Article has explored the extent of the ethical duties of both the corporate attorney and separate counsel in various types of relationships with the lower level employee. The Article has also considered the more insidious personal conflicts experienced by lawyers that can adversely affect the representation provided an employee by either the corporate attorney in a multiple representation situation or by separate counsel to whom the employee was referred and who is being paid by the corporation.

Because attorneys are the only protection an employee has for his interests during the investigative stage, the Article concludes that the Model Rules of Professional Conduct should provide more guidance to

attorneys in both representation and non-representation situations involving corporate employees. Proposed amendments to the Model Rules make two key suggestions: (1) that in any dealings with an unrepresented person, an attorney must immediately explain her role as a lawyer and the interest of her client in order to avoid any misunderstanding by such a person; and (2) that more formalized consent procedures must be used whenever there is both a likelihood of a conflict and a situation where one party, like a corporation, has the power to unduly influence the decisionmaking of another, such as an employee. Lawyers' recognition of the need for these principles, as well as their implementation, will help ensure that an employee will not be subject to abuse by his employer or its attorney.

Enhancing Self-Determination Through Guardian Self-Declaration

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I. Introduction

> "Man individually and as a race is possible on earth only because, not for weeks or months but for years, love and the guardianship of the strong over the weak has existed."[1]

The early history of recorded law provided evidence of the existence of legal protection for adults lacking the capacity necessary to act for themselves.[2] The Roman Law of the Twelve Tables in 449 B.C. contained a type of guardianship for mentally disabled persons who were thought to be capable of having lucid intervals.[3] The Praetors[4] later extended similar protection to all adults suffering from mental incapacity, even if the incapacity was permanent.[5]

Early English law also contains references to the special protections extended to incompetent individuals. A distinction was made between the guardianship of two categories of disabled adults: "idiots" or "born fools," and "lunatics."[6] "Idiots" were individuals so mentally disabled

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1. O. Schreiner, Man to Man ch. 7, *quoted in* R. Mackay, The Law of Guardianships ii (3d ed. 1980).

2. Protective devices for minors and the minor's ability to influence decisions regarding those devices are beyond the scope of this article. *See generally* H. Bevan, the Law Relating to Children 396-423 (1973) (explaining role of guardians for minors under English law as well as how wishes of a minor, if sufficiently mature, were considered by the court (401)); J. Long, A Treatise on the Law of Domestic Relations §§ 271-94 (2d ed. 1913) (history, development and use of guardians to protect minors; wishes of a minor over fourteen years old concerning selection of guardian are considered by the court but are not controlling (§ 281)); E. Peck, The Law of Persons and of Domestic Relations § 151 (3d ed. 1930) ("in most if not all of the states statutes have been enacted under the provisions of which an infant who has reached the age of fourteen years, and requires a guardian, is entitled to choose his own guardian. This right of choice is subject to control by the court to insure a suitable appointment . . . .").

3. *See* W. Buckland, A Text-Book of Roman Law From Augustus to Justinian 168 (P. Stein 3d ed. 1963) (lunatic placed in care of their *agnates* (paternal relatives) or if none, their *gentiles* (relatives connected by common descent)); *see also* R. Allen, E. Ferster & H. Weihofen, Mental Impairment and Legal Incompetency 2 (1968) [hereinafter Allen, Ferster & Weihofen].

4. Praetors were magistrates appointed by the Emperor to exercise civil jurisdiction. *See* C. Salkowski, Institutes and History of Roman Private Law With Catena of Texts 34 (E. Whitfield trans. 1886).

5. *See* W. Buckland, *supra* note 3, at 168. For individuals who fell within the prescription of the Twelve Tables, the Roman Law preferred to appoint *agnates*, but if *agnates* were absent or deemed unworthy, then the Praetor.

6. *See* 1 W. Holdsworth, A History of English Law 474 (7th ed. rev. reprinted 1966) (right of guardianship for an idiot was a profitable right analogous to right of wardship whereas lunacy was in the nature of a duty where no profit could be made by the appointed agent); 1 F. Pollock & F. Maitland, The History of English Law 481 (2d ed. 1898) [hereinafter Pollock & Maitland].

that they were unlikely to regain sufficient mental capacity to act on their own at any time. On the other hand, "lunatics" had the potential of regaining their mental faculties at a future date.[7] Under the early common law, lords[8] were entitled to become the guardians of the land and person of incompetents.[9] The lord could actually seize the land of an incurable idiot but he could only administer the real property of a lunatic because the land would have to be restored to the lunatic should he recover.[10]

In approximately 1216, near the end of the reign of King Henry III, the crown acquired the right of guardianship over incompetent persons, to the exclusion of lords, by virtue of a statute or ordinance.[11] The crown's right was documented in the statute *de Praerogativa regis* which has been traced to the early years of King Edward I.[12] The king was granted custody of idiots' lands and the right to take the profits produced from the lands without waste and had the reciprocal duty of providing for the idiots' necessaries.[13] Upon the death of an idiot, the lands were returned to the idiot's rightful heirs.[14] In a similar manner, the king managed the lunatic's lands and tenements and maintained the lunatic and his household with the profits.[15] If the lunatic regained competency, the residue of the lunatic's estate would then be returned to him; the king was not permitted to claim anything for his own use.[16]

Originally, jurisdiction over persons of unsound mind was regarded as a valuable right and was therefore vested in the Court of Exchequer.[17]

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7. *See* ALLEN, FERSTER & WEIHOFEN, *supra* note 3, at 2.

8. A lord was "[a] feudal superior or proprietor; one of whom a fee or estate [was] held." BLACK'S LAW DICTIONARY 850 (5th ed. 1979).

9. *See* 1 W. HOLDSWORTH, *supra* note 6, at 473.

10. *See* ALLEN, FERSTER & WEIHOFEN, *supra* note 3, at 2; 1 POLLOCK & MAITLAND, *supra* note 6, at 481.

11. *See* 1 W. HOLDSWORTH, *supra* note 6, at 473; 1 POLLOCK & MAITLAND, *supra* note 6, at 481.

12. *See* 1 W. HOLDSWORTH, *supra* note 6, at 473 n.8 (accepted as a genuine statute during the Middle Ages but may have been a private work or issued by some official upon the king's instructions; estimated date is between 1255 and 1290); 1 POLLOCK & MAITLAND, *supra* note 6, at 481 (while exact origins of this document are unknown, it may have been procured by Robert Walerand, a friend of the king, who foresaw that he was to leave an idiot as his heir and desired to have his lands come into the possession of the king rather than his lords).

13. *See* 1 W. HOLDSWORTH, *supra* note 6, at 473 (paraphrasing *de Praerogativa regis*).

14. *Id.*

15. *Id.* at 473-74.

16. *Id.* at 474.

17. *Id.* The Court of Exchequer was inferior to the King's Bench and the Court of Common Pleas. It was charged with "keeping the king's accounts and collecting the royal revenues." BLACK'S LAW DICTIONARY 322 (5th ed. 1979).

As time passed, the management of incompetents and their estates became viewed as a duty. By 1660, jurisdiction was almost always delegated to the Chancellor.[18] The Chancellor would typically appoint a committee to oversee the affairs of the incompetent person and to carefully administer his property.[19]

In the United States, jurisdiction over incompetent persons was originally exercised by equity or law courts under specific statutory authority.[20] As the law developed, most, if not all, matters that involved the guardianship of incompetent persons became highly regulated by statute.[21] Upon a proper petition and a finding that the person was incompetent, a guardian or committee was appointed by the court to care for the person and his estate.[22] State statutes typically prioritize the

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18. *See* 1 W. HOLDSWORTH, *supra* note 6, at 474-75. The Chancellor's jurisdiction rested upon two facts: (1) the share he received when writs were issued to inquire into the purported insanity, and (2) the express delegation by the crown of its powers and duties over persons of unsound mind who the Chancellor was to oversee personally. *Id.*

19. *Id.* at 475.

20. *See* J. LONG, *supra* note 2, at § 318.

21. *See id.*; J. MADDEN, HANDBOOK OF THE LAW OF PERSONS AND DOMESTIC RELATIONS § 151 (1931).

22. *See* J. LONG, *supra* note 2, at § 318. Early incompetency statutes, in general, allowed for the appointment of a guardian for mental incompetents in three broad areas: insane persons, idiots, and persons incapable of properly handling their own affairs. *See, e.g.*, *In re* Daniels, 140 Cal. 335, 73 P. 1053 (1903) (upon petition of relative or friend, a guardian shall be appointed for a mentally incompetent person to manage property); *In re* Clark, 67 N.E. 212 (N.Y. 1913) (jurisdiction of county court included resident of county who was incompetent by reason of lunacy (unsound mind), idiocy or habitual drunkenness); Shelby v. Farve, 33 Okla. 651, 126 P. 764 (1912) (county court shall appoint guardians of minors, idiots, lunatics, persons non compos mentis and habitual drunkards); *In re* Northcutt, 81 Or. 646, 160 P. 801 (1916) (statute addresses three classes of persons: insane persons, idiots, and persons incapable of properly handling own affairs).

Modern adult incompetency statutes are broader in scope and allow the appointment of a guardian or conservator on the petition of a person interested in the welfare of an individual believed to be incapacitated or partially incapacitated. *See* CAL. PROB. CODE § 1820 (Deering 1981) (proposed conservatee, spouse, relative, interested state or local governmental entity, public officer or employee, or other interested person or friend may petition for appointment of conservator); OKLA. STAT. ANN. tit. 30, § 3-101 (West Supp. 1989) (any person interested in welfare of person believed to be incapacitated or partially incapacitated may file for court appointed guardian alleging degree and nature of incapacity); OR. REV. STAT. § 126.103 (1987) (any person interested in welfare of incapacitated person may file petition for finding of incapacity and appointment of guardian alleging proposed ward's lack of capacity). Oregon defines an incapacitated person as: "an adult whose ability to receive and evaluate information effectively or communicate decisions is impaired to such an extent that the person presently lacks the capacity to meet the essential requirements for the person's physical health or safety or to manage the person's financial resources." "Meeting the essential requirements for physical health and safety" means those actions necessary to provide the health care, food, shelter, clothing, personal hygiene

persons who may be appointed as guardian of the ward's person and estate. The incompetent's spouse and adult children are favored in these statutory preferences as evidenced by their placement at or near the top of the list.[23] These statutes codify the public's belief that close relatives are the most likely individuals to be solicitous of the ward's personal and financial welfare.

The central issue for consideration in this article is the extent to which an incompetent person may influence or control the court's selection of the person who will be charged with the management of his person and his estate.[24] Once a person is deemed incompetent by the court, unpleasant ramifications from that finding impact the incompetent's right of self-determination; important decisions regarding personal and business matters once made by the incompetent are now made by the guardian. Despite the withdrawal of the legal power to make decisions even as mundane as which washing machine to purchase, most state statutes that originally guided the court in the appointment of a guardian did not require the court to consider the desires or preferences of the incompetent as to whom the guardian should be. Although an incompetent individual may lack the legal capacity to contract, he certainly retains his emotional and psychological sense of self-worth. Thus, the appointment of a person with statutory priority, such as a spouse or adult child, may not be in the best interest of the incompetent due to conflicting interests or personal grudges against the incompetent that do not typically surface during the appointment process. Even if it is assumed that the person with priority would be adequate as a guardian of the person, the incompetent may prefer a different person as guardian of his estate, especially if the estate consists of assets requiring special management skills.

The case law which developed in the United States in the nineteenth and early twentieth centuries was inconclusive as to the ability of an incompetent to influence the court's decision regarding the person to be appointed as his guardian. Most courts held that they were not required

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and other care without which serious physical injury or illness is likely to occur." "Manage financial resources" means those actions necessary to obtain, administer and dispose of real and personal property, intangible property, business property, benefits and income. OR. REV. STAT. § 126.003(4) (1987).

23. *See, e.g.*, ARIZ. REV. STAT. ANN. § 14.5410A (1975); MICH. STAT. ANN. § 27.5454(3) (Callaghan Supp. 1988-89); MONT. CODE ANN. § 72-5-312(2) (1987).

24. There are two basic types of guardians. A guardian of the person (a "tutor" under the civil law) is vested with the duty to care for the incompetent's person. A guardian of the estate, often called a conservator (a "curator" under the civil law), is in charge of administering the incompetent's estate. *See* J. MADDEN, *supra* note 21, § 144 (1931). Use of the term "guardian" in this article refers to both types unless otherwise indicated.

to give weight to the incompetent's preferences.[25] Nonetheless, other courts gave serious consideration to the incompetent's recommendation believing that the incompetent's best interests were often served by the appointment of a self-preferred guardian.[26] For example, the Massachusetts Supreme Court stated:

> A man may be insane so as to be a fit subject for guardianship, and yet have a sensible opinion and strong feeling upon the question who that guardian shall be. And that opinion and feeling it would be the duty as well as the pleasure of the court anxiously to consult, as the happiness of the ward and his restoration to health might depend upon it.[27]

The right of an incompetent to determine his fate to the greatest extent possible is increasingly recognized in the law. For example, the Utah Supreme Court recently stated that "a court in appointing a guardian must consider the interest of the ward in retaining as broad a power of self-determination as is consistent with the reason for appointing a guardian. . . ."[28] Likewise, one Illinois court emphasized that "[g]uardianship is to be used to encourage self-reliance and independence."[29]

In an effort to provide the incompetent person with greater input into the court's decision-making process, most states have enacted statutes

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25. *See, e.g.*, *In re* Coburn, 165 Cal. 202, 131 P. 352, (1913) (court affirmed appointment of guardian not desired by incompetent because there is no requirement that court "give any weight to the preference of the ward"); *In re* Cassidy's Guardianship, 95 Cal. App. 752, 273 P. 69 (1928) ("under no existing provision is the court required to give any weight to the wishes of the ward"); Kutzner v. Meyers, 182 Ind. 669, 108 N.E. 115 (1915) (lower court did not err in refusing to permit the incompetent to select his own guardian); *In re* Lynch, 124 Minn. 492, 145 N.W. 378 (1914) (court did not abuse its discretion when it appointed suitable guardians merely because the incompetent preferred others); *In re* Estate of Coulter, 406 Pa. 402, 178 A.2d 742 (1962) (no error in appointing as guardian a bank which was unacceptable to ward because there was not a scintilla of evidence that the bank was not fully qualified to serve as his guardian).

26. *See, e.g.*, Broxson v. Spears, 216 Ala. 385, 113 So. 248 (1927) (incompetent's wishes considered); *cf. In re* Green's Guardianship, 125 Wash. 570, 216 P. 843 (1923) (incompetent's indication that a particular person should not serve as guardian was one of many factors court considered in determining that such person was improperly appointed).

27. Allis v. Morton, 70 Mass. 63, 64 (1855).

28. *In re* Boyer, 636 P.2d 1085 (Utah 1981). *Cf. In re* Reed's Guardianship, 182 N.W. 329 (Wis. 1921) (in determining whether it was proper to appoint a guardian for a spendthrift, court stated that "liberty of the person and the right to the control of one's own property are very sacred rights which should not be taken away or withheld except for very urgent reasons").

29. *In re* Estate of Bennett, 122 Ill. App. 3d 756, 461 N.E.2d 667 (1984); *cf.* TEX. PROB. CODE ANN. § 130A (Vernon Supp. 1990) (limited guardianship "designed to encourage the development of maximum self-reliance and independence in the individual").

which grant the incompetent the right to express a non-binding preference regarding the person to be appointed as his guardian.[30] Despite the incompetent's right to have his desires considered, one study has concluded that "in a majority of guardianship proceedings, little or no thought is given to whether the *particular* guardian to be named is one who would be personally acceptable to the ward."[31]

In more recent years, commentators have urged and legislatures have recognized that during the selection of a guardian, attention should focus on preferences expressed by the incompetent while the individual was competent, rather than on nominations made while incompetent.[32] Nevertheless, it must also be recognized that an incompetent person's expression of preference is inherently suspect; a person lacking the capacity to handle personal and property matters may also lack the capacity to select a proper guardian. Likewise, an incompetent person is more susceptible to influence from those who wish to be appointed as guardian but who do not actually have the person's best interests in mind.

In an effort to resolve these important issues, this article focuses on the growing trend in the United States to permit competent individuals to select their guardians before the onset of incompetency and ultimately recommends greater access and simplicity with specially designed statutory fill-in-the-blank forms. The various methods of guardian self-designation that have evolved are discussed in detail. Attention then turns to the forms which have been enacted by several state legislatures to encourage their citizens to take advantage of the opportunity to pre-select their guardians. After a critique of the effectiveness of these forms, two

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30. *See, e.g.*, HAW. REV. STAT. § 560:5-410(a)(2) (1985) (for appointment of conservator, court is to consider "[a]n individual or corporation nominated by the protected person if he is fourteen or more years of age and has, in the opinion of the court, sufficient mental capacity to make an intelligent choice"); KY. REV. STAT. ANN. § 387.600(2) (Michie/Bobbs-Merrill 1984) ("Prior to the appointment, the court shall make a reasonable effort to question the respondent concerning his preference regarding the person or entity to be appointed limited guardian, guardian, limited conservator, or conservator, and any preference indicated shall be given due consideration."); MICH. STAT. ANN. § 27.5454(2) (Callaghan Supp. 1988-89) ("In appointing a guardian under this section, the court shall appoint a person, if suitable and willing to serve, designated by the person who is the subject of the petition."); *see also* UNIF. PROB. CODE § 5-409(a)(2) (1987) (for appointment of conservator, court must consider "an individual or corporation nominated by the protected person 14 or more years of age and of sufficient mental capacity to make an intelligent choice").

31. ALLEN, FERSTER & WEIHOFEN, *supra* note 3, at 90 (emphasis in original).

32. *See infra* text accompanying notes 42-62; *see also* Gorman, *Planning for the Physically and Mentally Handicapped*, 11 INST. ON EST. PLAN. 15-1, 15-31 to -32, 15-37 to -39 (1977) (recommending that a competent person prepare a document nominating a guardian even though such instructions may not be legally binding because they would be helpful to the court).

recommendations are made. First, each jurisdiction should enact a free-standing self-designation of guardian act which encompasses a statutory fill-in-the-blank form. Second, each state should adopt the Uniform Power of Attorney Form Act after amending the Act to bring guardian self-designation within its scope.

II. Methods To Self-Designate Guardians Prior To Incompetency

This section discusses and analyzes the six different methods which legislatures have developed to enable a person to nominate guardians prior to incompetency or disability. The methods vary considerably and some jurisdictions authorize several disparate techniques.

A. Appointment of a Guardian While Competent

At least one state permits individuals to secure a court appointed guardian prior to incompetency. In Vermont, a competent adult may petition the court for the appointment of a guardian.[33] The petitioner's preference of a guardian will be approved if the court finds that the petitioner (1) is not mentally ill or mentally retarded, (2) has not been coerced, and (3) understands the nature, extent and consequences of the guardianship over his person and estate as well as the procedures for revoking the guardianship.[34] The guardian will only receive the powers

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33. Vt. Stat. Ann. tit. 14, § 2671(a) (Supp. 1988).

34. *Id.* § 2671(b)(3), (d). *Compare* Unif. Prob. Code § 5-401, 8 U.L.A. 478 (1987) (provisions delineating responsibilities and scope of conservator) *with id.* § 5-301, 8 U.L.A. 459 (1987) (description of and responsibilities of guardian). Under § 5-401, a conservator may be appointed over the "estate and affairs of a person" if the court finds two conditions: 1) "that the person is unable to manage property and business affairs effectively for such reasons as mental illness, mental deficiency, physical illness or disability, advanced age, chronic use of drugs, chronic intoxication, confinement, detention by a foreign power, or disappearance;" and 2) "the person has property that will be wasted or dissipated unless property management is provided or money is needed for the support, care, and welfare of the person or those entitled to the person's support and that protection is necessary or desirable to obtain or provide money." *Id.* § 5-401(c), 8 U.L.A. 478 (1987). In contrast, § 5-301 provides that a guardian of the person may be appointed 1) for a minor (an unmarried incapacitated person) by a parent by will or another writing signed by the parent and attested to by at least two witnesses; 2) a married incapacitated person by a spouse by will or another writing signed by the spouse and attested to by at least two witnesses. *See id.* § 5-301, 8 U.L.A. 459-60 (1987). Acceptance of the guardianship is effective when the guardian files acceptance of appointment in the court where the will is probated, or if another written instrument is used, in the court where the incapacitated person resides or is present. *Id.* § 5-301(a), (b). Under both situations, the guardian must give seven days written notice prior to his filing in court noting his intention to accept the guardianship. The appointment of a spouse has priority over the appointment of a parent. *Id.* § 5-301(b). Termination of the guardianship is made upon written objection to the appointment in the court at the place where the incapacitated person resides or is present. *Id.* § 5-301(d).

which the petitioner has specified in the petition[35] and the petitioner may file a motion to revoke the guardianship at any time.[36]

This procedure provides an individual with tremendous flexibility: a person may secure the appointment of a guardian without being required to demonstrate an inability to care for himself or his property;[37] the guardianship may be revoked without proving a just cause;[38] and the guardian receives only those powers requested by the petitioner.[39] This technique provides the petitioner with a degree of certainty because the individual dictates the person who is originally appointed as guardian public notice of the petitioner's true intent.[40] However, a person may be reluctant to submit to this procedure while competent; he may not wish to relinquish control over his property or person or may be unwilling to incur the court costs and guardian fees which may accompany the voluntary guardianship. This type of statute is akin to a durable power of attorney. It was probably designed to allow a person to obtain immediate assistance with some aspect of his personal or business affairs without a complicated or embarrassing guardianship proceeding rather than as a method to obtain the appointment of a guardian who is to stand in the wings until actually needed.[41]

B. Standby Guardianship/Conservatorship

A somewhat recent approach adopted by several states authorizes a competent person to prepare and file a petition for the appointment of a guardian of his person or conservator of his estate before the need arises but delays court action on the petition until the occurrence of a specified triggering event.[42] The Iowa statute enacted in 1963 will be discussed in detail because Iowa was the first state to provide for standby guardianships or conservatorships[43] and because the Iowa statute has

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35. VT. STAT. ANN. tit. 14, § 2671(b)(2), (f) (Supp. 1988).

36. *Id.* § 2671(h).

37. *Id.* § 2671(d) (court may not appoint a guardian if petitioner is mentally ill or mentally retarded); *cf.* FLA. STAT. ANN. § 744.341 (West 1986) (a mentally competent person may petition the court for the appointment of a voluntary guardian but only if person "is incapable of the care, custody, and management of his estate by reason of age or physical infirmity").

38. VT. STAT. ANN. tit. 14, § 2671(h) (Supp. 1988).

39. *Id.* § 2671(f).

40. *Id.* § 2671(b)(3), (d).

41. *Id.* § 2671(a) (indication that user of procedure "desires assistance with the management of his or her affairs").

42. *See* IOWA CODE ANN. §§ 633.560, 633.591-.597 (West 1964); WYO. STAT. §§ 3-3-301 to -302 (1985).

43. 1963 Iowa Acts 326. The Bar Committee commenting on this statute stated that "[t]here appears to be no provision in the statutes of any other state for standby

become the model for other states which have enacted similar provisions.[44]

Under Iowa law, a competent adult may execute a verified petition for the voluntary appointment of a conservator[45] or guardian on a standby basis.[46] The petition must specify the event or the level of mental or physical health which will trigger the effectiveness of the petition.[47] The petition may nominate the guardian or conservator and may contain other requests and recommendations, such as the amount of bond.[48] The person using this technique either deposits the petition with the clerk of the court in his county of residence[49] or gives the petition to any person, firm, bank or trust company he selects.[50] A competent petitioner may revoke the petition at any time by physically destroying it or by executing an acknowledged instrument of revocation.[51]

Once the threshold event occurs or the condition stated in the petition arises, the petition may be heard upon the filing of a verified statement by any person[52] showing that the requisite event or condition has occurred.[53] The court is required to give due regard to the petitioner's nomination of guardian or conservator[54] and, because there is no requirement of notice, may promptly appoint the fiduciary indicated in the petition.[55]

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guardianships or conservatorships." The Committee believed that the new provisions would "permit a person of sound mind to plan for the infirmities of advanced age without giving up present control of his property, even to a trustee." Bar Committee Comment to §§ 633.591-.597 reprinted immediately preceding IOWA CODE ANN. § 633.591 (West 1964).

44. *See* WYO. STAT. §§ 3-3-301 to -306 (1985).

45. IOWA CODE ANN. §§ 633.591 (West 1964).

46. *Id.* § 633.560.

47. *Id.* § 633.591.

48. *Id.* § 633.592.

49. *Id.* § 633.593.

50. *Id.*

51. *Id.* § 633.594. If the original petition was deposited with the clerk of the court, any written revocation may also be filed with the clerk. *Id.*

52. *See id.* § 633.595 (statute imposes no limitation on who may file verified statement that triggering event has occurred).

53. *Id.* § 633.595.

54. *Id.* § 633.592.

55. *Id.* § 633.596. Alternatively, the court "may set the petition for hearing on such notice as the court may prescribe." *Id.* According to one commentator, notice is generally the rule in most situations regarding guardianships and conservatorships while omission of notice is the exception. *See* Peters, *Conservatorships and Guardianships Under the Iowa Probate Code*, 49 IOWA L. REV. 678, 680 (1964). According to Peters' interpretation of § 633.596 of the Iowa Probate Code, only four situations exist where notice is not required:

> 1) the ward is a minor and the guardianship or conservatorship is requested by the person having his custody;

A similar procedure became available in Wyoming in 1985.[56] The major difference in the Wyoming procedure is the absence of the petitioner's ability to deposit the petition with the court.[57] In the majority of cases, this difference is likely to be of little practical significance because most individuals deliver the petition directly to the person they have named as guardian. This procedure provides for the safe storage of the document reducing the chance of accidental or unauthorized destruction, although it may be considered inefficient and wasteful of the court's valuable resources. Of course, merely because the petition is filed with the court is no guarantee that it will be found when it is needed unless the petitioner has made its existence and location of its filing known to someone who will bring it to the court's attention at the appropriate time.

C. Nomination by Durable Power of Attorney

The most common method adopted by state legislatures to permit individuals to select their own guardians is by an express nomination in a durable power of attorney.[58] This technique permits the principal to nominate both a guardian of his person and a guardian of his estate (conservator).[59]

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2) where the ward individually voluntarily applies for the appointment;
3) where a standby petition has been presented to the court and the stated occurrence or condition has occurred in the court's opinion; and
4) when a foreign conservator seeks ancillary appointment.

Under the second clarification, the petition must state whether notice of involuntary proceedings for a conservator has been served upon the proposed ward. Other than these exceptions, notice pursuant to the Iowa Rules of Civil Procedure is required upon the proposed ward. *Id.*

56. 1985 Wyo. Sess. Laws 226 (codified at WYO. STAT. §§ 3-3-301 to -306 (1985)).

57. WYO. STAT. § 3-3-303 (1985) ("petition may be deposited with any person, firm, bank or trust company selected by the petitioner").

58. *See* ALA. CODE § 26-1-2(c)(2) (1986); ALASKA STAT. § 13.26.335(3) (Supp. 1988); ARK. STAT. ANN. § 28-68-203(b)(1) (1987); CAL. CIV. CODE § 2402(b) (Deering Supp. 1988) (item 7); D.C. CODE ANN. §§ 21-2043(b), 21-2083(b) (Supp. 1988); IDAHO CODE § 15-5-503(2) (Supp. 1988); ILL. ANN. STAT. ch. 110½, para. 803 (Smith-Hurd Supp. 1988) (item 8); IND. CODE ANN. §§ 29-3-5-5(a)(1), 30-2-11-3(b) (Burns Supp. 1988); KAN. STAT. ANN. § 58-612(b) (1983); MASS. ANN. LAWS ch. 201B, § 3(b) (Law. Co-op. Supp. 1989); NEB. REV. STAT. § 30-2667(2) (1985); N.C. GEN. STAT. § 32A-10(b) (1987); N.D. CENT. CODE § 30.1-30-03(2) (1987); OHIO REV. CODE ANN. § 1337.09(B) (Baldwin 1988); OKLA. STAT. ANN. tit. 58, § 1074B (West Supp. 1989); 20 PA. CONS. STAT. ANN. § 5604(c)(2) (Purdon Supp. 1988); TENN. CODE ANN. § 34-6-104(b) (1984); WASH. REV. CODE ANN. §§ 11.88.010(4), 11.94.010(1) (1987); W. VA. CODE § 39-4-3(b) (Supp. 1988); WIS. STAT. ANN. § 243.07(3)(b) (West 1987).

59. *See* ALA. CODE § 26-1-2(c)(2) (1986) ("guardian, curator or other fiduciary"); ALASKA STAT. § 13.26.335 (Supp. 1988) ("guardian or conservator"); ARK. STAT. ANN.

Many of these state statutes are based on the virtually identical provisions of the Uniform Probate Code[60] and the Uniform Durable Power of Attorney Act,[61] both of which permit the principal to include fiduciary nominations in a durable power of attorney. Under these uniform acts, the principal is authorized to nominate the individuals he desires as his guardian and conservator. The court which hears the petition must appoint the named persons unless there is either good cause for not doing so or the selected person is disqualified.[62] The drafters opined that the best reason for making a guardian self-designation was that such action would warrant the authority granted to the agent against future challenges by "arranging matters so that the likely ap-

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§ 28-68-203(b)(1) (1987) ("conservator, guardian of his estate, or guardian of his person"); CAL. CIV. CODE § 2402(b) (Deering Supp. 1988) ("conservator of the person or estate or both, or a guardian of the person or estate or both"); D.C. CODE ANN. §§ 21-2043(b), 21-2083(b) (Supp. 1988) ("conservator, guardian of his or her estate, or guardian of his or her person"); IDAHO CODE § 15-5-503(2) (Supp. 1988) ("conservator, guardian of his estate, or guardian of his person"); ILL. ANN. STAT. ch. 110½, para. 803-3 (Smith-Hurd Supp. 1988) (item 8) ("guardian of your person or a guardian of your estate"); IND. CODE ANN. §§ 29-3-5-5(a)(1), 30-2-11-3(b) (Burns Supp. 1988) ("conservator, guardian of his estate, or guardian of his person"); KAN. STAT. ANN. § 58-612(b) (1983) ("conservator, guardian of the principal's estate or guardian of the principal's person"); MASS. ANN. LAWS ch. 201B, § 3(b) (Law. Co-op. Supp. 1989) ("conservator, guardian of his estate, or guardian of his person"); NEB. REV. STAT. § 30-2667(2) (1985) ("conservator, guardian of the estate, or guardian of the person"); N.C. GEN. STAT. § 32A-10(b) (1987) ("conservator, guardian of his estate, or guardian of his person"); N.D. CENT. CODE § 30.1-30-03(2) (1987) ("conservator, guardian of the principal's estate, or guardian of the principal's person"); OHIO REV. CODE ANN. § 1337.09(D) (Baldwin 1988) ("guardian of his person, estate, or both"); OKLA. STAT. ANN. tit. 58, § 1074B (West Supp. 1989) ("conservator, guardian of his estate, or guardian of his person"); 20 PA. CONS. STAT. ANN. § 5604(c)(2) (Purdon Supp. 1988) ("guardian of his estate or of his person"); TENN. CODE ANN. § 34-6-104(b) (1984) ("conservator, guardian of his estate, or guardian of his person"); WASH. REV. CODE ANN. § 11.88.010(4) (1987) ("guardian or limited guardian of his or her estate or person"); W. VA. CODE § 39-4-3(b) (Supp. 1988) ("conservator, guardian of his estate, or guardian of his person"); WIS. STAT. ANN. § 243.07(3)(b) (West 1987) ("conservator, guardian of his or her estate, or guardian of his or her person").

60. § 5-503(b), 8 U.L.A. 514 (1987).

61. § 3(b), 8A U.L.A. 280 (1987).

62. UNIF. PROB. CODE § 5-503(b), 8 U.L.A. 514 (1987); UNIF. DURABLE POWER OF ATTORNEY ACT § 3(b), 8A U.L.A. 280 (1987); *see also* UNIF. PROB. CODE § 5-305(b), 8 U.L.A. 466 (1987) ("Unless lack of qualification or other good cause dictates the contrary, the Court shall appoint a guardian in accordance with the incapacitated person's most recent nomination in a durable power of attorney."); *id.* § 5-409(a) (except for fiduciary appointed under law of jurisdiction where protected person resides, court is to give first consideration when appointing a conservator to the individual or corporation nominated by a protected person who is at least fourteen years old and who has "sufficient mental capacity to make an intelligent choice"). Equivalent provisions are found in UNIF. GUARDIAN & PROTECTIVE PROCEEDINGS ACT § 2-205(b), 8A U.L.A. 480 (1987) (same as UNIF. PROB. CODE § 2-205(b)) and § 2-309(a) (same as UNIF. PROB. CODE § 5-409(a)).

pointee in any future protective proceedings will be the [agent] or another equally congenial to the principal and his plans."[63]

D. Nomination in Living Will

Minnesota has recently enacted legislation which permits competent adults to nominate a guardian in a declaration of preferences regarding health care decisions.[64] In addition to providing instructions regarding the application or non-application of artificial life-sustaining procedures and forced administration of food and water should the declarant be in a terminal condition, the declarant may designate a proxy to carry out those wishes when the declarant becomes unable to communicate them.[65] Unless the declaration expressly provides otherwise, the designation of a proxy is deemed to be a nomination of a guardian of the person.[66]

E. Nomination in Will-like Document

The second most common method by which a state grants a person the ability to designate his own guardian is through a document which must be executed with many, if not all, of the formalities of a valid will.[67] Some states refer directly to their will statutes and incorporate

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63. UNIF. PROB. CODE § 5-503 comment, 8 U.L.A. 515-16 (1987); UNIF. DURABLE POWER OF ATTORNEY ACT § 3 comment, 8A U.L.A. 281-82 (1987) (also noting that existence of a durable power of attorney may preclude necessity for guardians).

64. 1989 Minn. Sess. Law Serv. ch. 3 (West) (to be codified at MINN. STAT. §§ 145B.01-.17).

65. *Id.* at ch. 3, § 3 (to be codified at MINN. STAT. § 145B.03(2)(b)(2)).

66. *Id.* (to be codified at MINN. STAT. § 145B.03(3)).

67. CONN. GEN. STAT. ANN. § 45-70(b) (West 1981) ("designation shall be executed, witnessed and revoked in the same manner as provided for wills"); FLA. STAT. ANN. § 744.312(3)(b)(2) (West 1986) (nomination must be signed "in the presence of at least two attesting witnesses present at the same time"); GA. CODE ANN. § 29-5-2(c)(1) (1986) (nomination must be written, signed, and "attested by at least two witnesses, and must not have been revoked by a later writing signed by such adult and attested by at least two witnesses"); ILL. ANN. STAT. ch. 110½, para. 11a-6 (Smith-Hurd Supp. 1988) (if nomination is "executed and attested in the same manner as a will, it shall have prima facie validity"); MINN. STAT. ANN. § 525.544(1) (West Supp. 1989) (nomination in written instrument "executed and attested in the same manner as a will"); MO. ANN. STAT. § 475.050(2) (Vernon Supp. 1989) (nomination by writing signed by nominator and "by two witnesses who signed at his request, before the inception of his incapacity or disability, at a time within five years before the hearing when he was able to make and communicate a reasonable choice"); OHIO REV. CODE ANN. § 2111.121 (Baldwin 1987) (written nomination must "be signed by the person making the nomination in the presence of two witnesses; signed by the witnesses; contain, immediately prior to their signatures, an attestation of the witnesses that the person making the nomination signed the writing in their presence; and be acknowledged by the person making the nomination before a notary

those requirements while others list requirements akin to those for a will.[68] In addition to nominating guardians, some states permit the self-declaration to control other aspects of the guardianship; for example, waiver of bond,[69] designation of successors,[70] grant of guardianship powers,[71] and disqualification of named individuals.[72] The enabling legislation may also govern other aspects of the self-designation process such as the method of resolving a conflicting designation in a durable power of attorney,[73] evidenciary presumptions,[74] revocation methods,[75] the effect of the declarant's divorce from a designated guardian,[76] and the recommendation of the format of the self-designation document.[77]

States that employ will-like documents provide an easy method for a person to designate a guardian before the need arises, as do jurisdictions that provide for nomination in a durable power of attorney. However,

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public"); S.D. CODIFIED LAWS ANN. § 30-27-25 (1984) (nomination "in writing with the same formalities including attestation as required to make a valid will"); TEX. PROB. CODE ANN. § 118A(a), (c) (Vernon Supp. 1989) (written declaration "must be attested to by at least two credible witnesses 14 years of age or older who are not named as guardian or alternative guardian in the declaration"; "declaration must have attached a self-proving affidavit signed by the declarant and the witnesses attesting to the competence of the declarant and the execution of the declaration"); WIS. STAT. ANN. § 880.09(7) (West Supp. 1988) (written instrument executed "in the same manner as the execution of a will").

68. *See supra* note 67.

69. *See* CONN. GEN. STAT. ANN. § 45-70(c) (West 1981); OHIO REV. CODE ANN. § 2111.121(A) (Baldwin 1987); S.D. CODIFIED LAWS ANN. § 30-27-25 (1984).

70. *See* OHIO REV. CODE ANN. § 2111.121(A) (Baldwin 1987); TEX. PROB. CODE ANN. § 118A(d) (Vernon Supp. 1990).

71. *See* S.D. CODIFIED LAWS ANN. § 30-27-25 (1984).

72. *See* TEX. PROB. CODE ANN. § 118A(b) (Vernon Supp. 1990) (persons disqualified by declarant "may not be appointed guardian under any circumstances").

73. *See* OHIO REV. CODE ANN. § 2111.121(B) (Baldwin 1987) (court "shall appoint the person nominated as guardian in the writing or durable power of attorney most recently executed if the person nominated is competent, suitable, and willing to accept the appointment").

74. *See* ILL. ANN. STAT. ch. 110½, para. 11a-6 (Smith-Hurd Supp. 1989) (attested and executed designation has prima facie validity); TEX. PROB. CODE ANN. § 118A(c) (Vernon Supp. 1990) ("A properly executed and witnessed declaration and affidavit are prima facie evidence that the declarant was competent at the time he executed the declaration and that the guardian named in the declaration would serve the best interests of the ward.").

75. TEX. PROB. CODE ANN. § 118A(e) (Vernon Supp. 1990) ("declarant may revoke a declaration in any manner provided for the revocation of a will . . . including by the subsequent reexecution of the declaration in the manner required for the original declaration").

76. *Id.* § 118A(f) ("If a declarant designates the declarant's spouse to serve as guardian . . . and the declarant is subsequently divorced from that spouse before a guardian is appointed, the provision of the declaration designating the spouse has no effect.).

77. *Id.* § 118A(g) (suggested, but not required, forms for declaration of guardian and accompanying self-proving affidavit).

the will-like document technique may have difficulties because of the rigid formalities associated with their execution. To be valid, will-like documents must comply with the technical requirements for wills or with similar formalities such as attestation, and are thus susceptible to invalidation for minor errors in their execution, e.g., one witness signing rather than the required two witnesses, witness attesting out of the declarant's sight, witness signing the self-proving affidavit rather than declaration. No case was located where a formality problem led to an ineffective designation of guardian, but cases are legion where a technical error has caused an otherwise valid will to fail.[78]

In contrast to this formal will-like procedure which is wrought with hazards, durable powers of attorney have few formal requirements; a writing signed by the principal and properly notarized is often sufficient.[79] This method may thus be more effective in carrying out the desires of the declarant because of its ease of execution and the decreased chance of inadvertently failing to fulfill all of the necessary formalities.

F. Other Written Designations

Rather than impose a formalistic set of requirements for a valid self-declaration of a guardian, several jurisdictions permit competent adults to nominate a guardian in a simple written document.[80] The technical requirements of these written designations vary: some must be

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78. *See, e.g.*, Orrell v. Cochran, 695 S.W.2d 552 (Tex. 1985) (signature of testator on self-proving affidavit rather than on will rendered will invalid); Boren v. Boren, 402 S.W.2d 728 (Tex. 1966) (signatures of witnesses on self-proving affidavit rather than on will invalidated will); Morris v. Estate of West, 643 S.W.2d 204 (Tex. App.-Eastland 1982) (writ ref'd n.r.e.) (will invalid because attestation not in presence of testator where testator could not have seen witnesses sign without walking four feet to office door and fourteen feet down hallway). *But cf.* Langbein, *Substantial Compliance With the Wills Act*, 88 HARV. L. REV. 489, 489 (1975) ("insistent formalism of the law of wills is mistaken and needless"); Field, *Execution of Wills in Michigan*, 16 MICH. ST. B.J. 527, 531 (1937) ("adherence to ritualistic formality in the execution of wills contributes little, if anything, to the social purposes of law").

79. *See, e.g.*, UNIF. STATUTORY FORM POWER OF ATTORNEY ACT § 1(b), 8A U.L.A. 123 (Supp. 1989) (signature of principal must be acknowledged).

80. *See* CAL. PROB. CODE § 1810 (Deering 1981) (nomination of conservator); COLO. REV. STAT. § 15-14-311(2)(b) (1987) (incapacitated person's spouse has priority over written self-declaration); ILL. ANN. STAT. ch. 110½, para. 11a-6 (Smith-Hurd Supp. 1989) (if writing attested and executed in the same manner as a will, it will have prima facie validity); ME. REV. STAT. ANN. tit. 18-A, § 5-311(b)(1) (1981); MD. EST. & TRUSTS CODE ANN. § 13-707(a)(1) (Supp. 1988) (declarant need not be an adult, just sixteen years old or older when designation signed); NEV. REV. STAT. ANN. § 159.061(1) (Michie 1987); N.Y. MENTAL HYG. LAW § 77.03 (McKinney 1988); OKLA. STAT. ANN. tit. 30, § 3-102 (West Supp. 1990) (requiring nomination to be substantially in the form contained in the statute); OR. REV. STAT. § 126.035(1) (1984).

signed,[81] some must be acknowledged,[82] while others merely need to be written.[83] The statutes authorizing these written designations also vary with respect to the time at which the declarant may make the designation: some must be made while the declarant is still competent,[84] while others may be made after the person becomes incompetent provided he had sufficient mental capacity to make an intelligent selection at the time the designation was executed.[85] In addition, some statutes expressly permit the nomination of alternate guardians[86] and provide rules of interpretation for use if the same person has executed multiple self-declarations.[87]

These written designations are straightforward and relatively simple to use. They avoid many of the problems which accompany the will-like designations because technical formalities are eliminated or are considerably reduced. However, the lack of formalities may make these designations easier to forge or alter and may increase the chance of undetected undue influence, duress, or fraud.[88] Thus, jurisdictions considering the two approaches may conclude that the protective aspect of the formalities outweighs the potential frustration of intent that may occur if a self-declaration is executed with proper intent but fails to comport with the required formalities.[89] On the other hand, if forgery,

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81. *See* CAL. PROB. CODE § 1810 (Deering 1981); MD. EST. & TRUSTS CODE ANN. § 13-707(a)(1) (Supp. 1988); NEV. REV. STAT. ANN. § 159.061(1) (Michie 1987) (written instrument must be "executed"); N.Y. MENTAL HYG. LAW § 77.03(d) (McKinney 1988) (petition or written instrument must be "duly executed"); OKLA. STAT. ANN. tit. 30, § 3-102 (West Supp. 1990); OR. REV. STAT. § 126.035(1) (1984) (written instrument must be "executed").

82. *See* N.Y. MENTAL HYG. LAW § 77.03(d) (McKinney 1988).

83. *See* COLO. REV. STAT. § 15-14-311(2)(b) (1987); ILL. ANN. STAT. ch. 110½, para. 11a-6 (Smith-Hurd Supp. 1988); ME. REV. STAT. ANN. tit. 18-A, § 5-311(b)(1) (1981).

84. *See* COLO. REV. STAT. § 15-14-311(2)(b) (1987); ILL. ANN. STAT. ch. 110½, para. 11a-6 (Smith-Hurd Supp. 1988) ("sound mind and memory"); OKLA. STAT. ANN. tit. 30, § 3-102A (West Supp. 1989) ("sound mind and not acting under duress, menace, fraud or undue influence"); OR. REV. STAT. § 126.035(1) (1987); NEV. REV. STAT. ANN. § 159.061(1) (Michie 1987).

85. *See* CAL. PROB. CODE § 1810 (Deering 1981); MD. EST. & TRUSTS CODE ANN. § 13-707(a)(1) (Supp. 1988); N.Y. MENTAL HYG. LAW § 77.03(d) (McKinney 1988); *cf.* ME. REV. STAT. ANN. tit. 18-A, § 5-311(b)(1) (1981) (issue of time of nomination not expressly discussed).

86. *See* OKLA. STAT. ANN. tit. 30, § 3-102(C) (West Supp. 1989).

87. *Id.* § 3-102(D) (most recent nomination controls or "[i]f two or more nominations bear the same most recent date the court may appoint one of the nominees or may appoint more than one of the nominees as coguardians"); CAL. CIV. CODE § 2402(b) (West Supp. 1988) (court must give effect to most recent writing).

88. *But see* Gulliver & Tilson, *Classification of Gratuitous Transfers*, 51 YALE L.J. 1, 9-13 (1941) (doubtful that will formalities effectively protect the testator).

89. *See, e.g.*, Ohio State Bar Association Probate and Trust Law Section Commentary (1983), *reprinted following* OHIO REV. CODE ANN. § 2111.121 (Baldwin 1987) (because a self-declaration of guardian is of "such sensitivity and importance" it should be executed with the same formalities as a power of attorney dealing with real estate).

undue influence, or other evil conduct is involved, there will usually be a person contesting the designation and the contest will often expose this improper behavior.

III. Statutory Self-Designation Of Guardian Fill-In Forms

Several states have enacted statutes that contain fill-in forms for use in designating a guardian before the need arises. These states have utilized four different approaches when drafting self-designation forms which reflect the approach taken by the jurisdiction regarding self-designation: as part of a statutory durable power of attorney, as part of a living will, as a will-like document, or as a separate written designation.

A. Durable Power of Attorney

Three states, Alaska, California, and Illinois, have provided for self-designation of guardians in their durable power of attorney fill-in forms.[90] There are, however, significant differences among the approaches of these states.

The standard Alaska statutory power of attorney form does not contain a provision relating to self-declaration of guardians;[91] rather, appropriate language is provided as an option which may be included in the form.[92] The suggested clause permits the principal to nominate one person to serve as both guardian and conservator should the need arise.[93] The provision does not permit different individuals to be named as guardian of the person and conservator of the estate nor is any place provided for the designation of alternate fiduciaries should the named person be unwilling or unable to serve.[94]

California provides two different statutory power of attorney forms which may be used to effect a guardian self-declaration.[95] The general statutory power of attorney fill-in form permits the principal to nominate one person to serve as conservator of the principal's estate. Like Alaska's provision, no opportunity is given for the principal to nominate a successor or alternate conservator.[96] The form contains a plain-language

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90. *See* Alaska Stat. § 13.26.335(3) (Supp. 1988); Cal. Civ. Code §§ 2450 (clause 7 - conservator of estate), 2500 (West Supp. 1988) (clause 10 - conservator of person); Ill. Ann. Stat. ch. 110½, para. 803-3 (Smith-Hurd Supp. 1988) (clause 9 - statutory form power of attorney for property); Ill. Ann. Stat. ch. 110½, para. 804-10 (Smith-Hurd Supp. 1988) (statutory form power of attorney for health care).

91. Alaska Stat. § 13.26.332 (Supp. 1988).

92. *Id.* § 13.26.335(3).

93. *Id.* (name and address of nominated person should be stated).

94. *Id.*

95. Cal. Civ. Code §§ 2450, 2500 (West Supp. 1988).

96. *Id.* § 2450 (clause 7).

description of what a conservator does and when one will be appointed.[97] In addition, the California form explains that the principal may, but need not, nominate the same person selected as his agent.[98] If the principal also wishes to nominate a conservator over his person, a separate statutory durable power of attorney fill-in form designed specifically for health care decisions must be used.[99] The relevant form language regarding nomination is basically the same as for a conservator of the estate, i.e., only one person may be nominated and plain-language descriptions and instructions are included.[100]

California's bifurcated approach is unnecessarily cumbersome by requiring that separate forms be used to nominate conservators and guardians. This inconvenience and added expense could easily be alleviated by combining the two options in one form as Illinois has done. The Illinois statutory short-form power of attorney for property provides the principal with the opportunity to nominate both types of guardians in a single document: one person as guardian of his person and the same or a different person as guardian of his estate.[101] Like the Alaska and California forms, the Illinois form is deficient in its failure to provide for the nomination of alternates or successors.[102] In language similar to the California forms, the Illinois form contains plain-language explanations and instructions.[103] Illinois also has a statutory short form power of attorney for health care in which the principal may nominate a guardian of his person, but not a guardian of his estate.[104]

B. Living Will

Minnesota is the only state to include provisions for guardian preselection in its statutory living will form.[105] However, the ability to self-designate is buried deep within the boilerplate language of the form and thus may easily be overlooked. Clause eight of the living will form is

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97. *Id.* ("The conservator is responsible for the management of your financial affairs and your property. You are not required to nominate a conservator but you may do so. The court will appoint the person you nominate unless that would be contrary to your best interests.").

98. *Id.* The form also requests the nominee's address. *Id.*

99. *Id.* § 2500 (clause 10).

100. *Id.* (*e.g.*, "The conservator is responsible for your physical care, which under some circumstances includes making health care decisions for you.").

101. ILL. ANN. STAT. ch. 110½, para. 803-3 (Smith-Hurd Supp. 1988) (clauses 9 & 10).

102. *Id.*

103. *Id.*

104. *Id.* § 804-10 (clause 6).

105. 1989 Minn. Sess. Law Serv. ch. 3, § 4 (West) (to be codified at MINN. STAT. § 145B.04).

labeled "Proxy Designation" and begins with a two paragraph explanation of the declarant's opportunity to name a person to make health care decisions for the declarant should the declarant be unable to communicate his desires.[106] The last sentence of the second paragraph provides that the person designated as a health care proxy is simultaneously nominated as guardian or conservator of the declarant's person if a guardian or conservator becomes necessary.[107] This provision is neither conspicuous nor is it explained in the notices and warnings supplied at the beginning of the form.[108] In addition, the form fails to give the declarant the option of indicating a different guardian of the person or striking the language concerning guardian selection, despite a statutory mandate that the declaration may provide that a proxy designation is not to be deemed a guardian designation.[109] In many cases it may be appropriate to have the declarant's health care proxy and guardian of the person be the same individual, but this decision should be consciously made by the declarant and should not be the result of inadvertence.

The remainder of the self-designation provision is adequate. The declarant is given the opportunity to designate a primary and alternate guardian.[110] The designations provide for detailed descriptions of the selected individuals to increase the chance that they may be located when needed; the declarant is provided with blank spaces for the guardians' names, addresses, telephone numbers, and relationships, if any, to the declarant.[111]

C. Will-like Document

In comprehensive landmark legislation effective August 26, 1985, Texas became the first, and so far the only state, to enact a will-like statutory fill-in form for guardian self-designation.[112] This form is not incorporated into some other type of estate planning form; it is a free-standing document devoted entirely to a person's ability to designate a guardian in the event of later incompetence or need of a guardian.[113] The declarant may designate different persons to serve as guardian of

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106. *Id.*
107. *Id.*
108. *Id.*
109. *Id.* § 3 (to be codified at MINN. STAT. § 145B.03(3)).
110. *Id.* § 4 (to be codified at MINN. STAT. § 145B.04).
111. *Id.*
112. 1985 Tex. Gen. Laws ch. 929 (codified at TEX. PROB. CODE ANN. § 118A (Vernon Supp. 1989)).
113. *Id. See generally*, Jorrie & Krier, *One Less Worry for Adults Facing Incapacity*, 49 TEX. B.J. 28 (1986) (discussion of history, purpose, and operation of Texas fill-in form and enabling legislation).

the person and guardian of the estate.[114] Unlike the Alaska, California and Illinois forms which incorporate self-designation of guardians in durable powers of attorney, the Texas form provides the declarant with the option of naming up to three alternate guardians of the person and of the estate should any guardian be unable or unwilling to serve.[115] The form also provides blanks for the date of execution and the signatures of the declarant and the witnesses.[116]

The Texas form is unique because it allows the declarant to expressly disqualify up to three persons from serving as guardian of the person and three persons from serving as guardian of the estate.[117] Anyone so disqualified, including those who would otherwise have statutory priority, such as a spouse or an adult child, may not be appointed as the declarant's guardian "under any circumstances."[118] The absolute preclusion of these individuals is justified "under the theory that there are millions of people . . . from which to choose potential guardians."[119] Providing the declarant with the chance to disqualify certain individuals is perhaps equally as important as the ability to nominate guardians. Scenarios exist where a person would not want those with statutory priority to control his personal or financial destiny, e.g., an unfaithful spouse or a greedy, hateful, or spendthrift child.[120]

To be effective, the declaration of guardian form must be "attested to by at least two credible witnesses 14 years of age or older who are not named as guardian or alternative guardian in the declaration"[121] and be accompanied by a self-proving affidavit.[122] Unlike wills where the use of self-proving affidavits is optional, the guardian designation appears to be ineffective without the self-proving affidavit. Together, the declaration and self-proving affidavit are "prima facie evidence that the declarant was competent at the time he executed the declaration and that the guardian named in the declaration would serve the best interests of the ward."[123] The statute also contains a form for the self-proving affidavit which has blank spaces for the declarant's and the two witnesses' signatures as well as the proper notarial jurat.[124]

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114. Tex. Prob. Code Ann. § 118A(g) (Vernon Supp. 1990) (clauses 1 & 2).
115. *Id.*
116. *Id.*
117. *Id.* (clauses 4 & 5).
118. *Id.* § 118A(b).
119. Jorrie & Krier, *supra* note 113, at 28.
120. *Id.* (guardian with statutory priority could punish a ward who is trapped in a failing body).
121. Tex. Prob. Code Ann. § 118A(a) (Vernon Supp. 1990).
122. *Id.* § 118A(c).
123. *Id.* The nominee will be appointed unless disqualified or court finds he would not serve the ward's best interests. *Id.* at § 118A(d).
124. *Id.* § 118A(g).

D. Written Designation

From its enactment in 1961 to 1988, Oklahoma's self-designation of guardian statute required the document to be executed in the same manner as a will.[125] Effective December 1, 1988, this long-standing statute was amended to provide for self-designation by a simple written designation.[126] In addition to changing the method of self-selection, the statute became the first of its type to supply a fill-in form which may be used to make the nomination.[127]

The recommended form is concise and requires only a minimum number of formalities. The form provides the declarant with the opportunity to designate one person to serve as guardian of the person, guardian of the estate, or both.[128] If an individual wishes to designate different persons as guardian of the estate and of the person, separate forms need to be used or the statutory form altered.[129] Spaces are supplied for the declarant to indicate the nominee's name and current residence, the declarant's relationship to the nominee, and the city, state, and date of execution.[130] As with the durable power of attorney forms of Alaska, California, and Illinois, no provision is made for alternate or successor guardians.[131] The nominations made by the declarant are binding on the court unless the court disqualifies the nominee.[132]

IV. Analysis

The statutory declaration of guardian fill-in forms appear to be designed for use by attorneys and the non-lawyer public.[133] The availability and low cost of legislatively sanctioned forms is likely to increase the number of individuals who choose to nominate their own guardians

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125. Okla. Stat. Ann. tit. 58, § 896 (West 1985) (current version at Okla. Stat. Ann. tit. 30, § 3-102 (West Supp. 1989)). The only case interpreting the original statute is *In re* Guardianship of Campbell, 450 P.2d 203 (Okla. 1966) where the court held, inter alia, that the self-designation of guardian must be accomplished by the declarant before being adjudged incompetent. *Id.* at 206-07.

126. Okla. Stat. Ann. tit. 30, § 3-102 (West Supp. 1989).

127. *Id.* § 3-102(B).

128. *Id.*

129. *Id.* (only minor alterations are permitted because nomination must be "substantially" in the statutory form).

130. *Id.*

131. *Id.*

132. *Id.* § 3-102(A).

133. For example, the Illinois statute contains a statement of purpose which includes the following: "The General Assembly finds that the public interest requires a standardized form of power of attorney that individuals may use to authorize an agent [guardian] to act for them in dealing with their property and financial affairs." Ill. Ann. Stat. ch. 110½, para. 803-1 (Smith-Hurd Supp. 1988).

before the need arises. This section examines how effectively statutory self-designation forms carry out the primary goal of guardianship, i.e., to do what is in the best interest of the ward.[134]

A. Increased Chance of Desired Person Serving as Guardian

Perhaps the most important reason a person would elect to use a self-declaration of guardian is to increase the likelihood that a specific person will be appointed as guardian in the event of later incompetency or incapacity. Without such a designation, there is no assurance that a court-appointed guardian will be the person the disabled individual would have desired to control his person or estate. To the contrary, the person the court appoints could be someone the incompetent person would never have wanted to serve as his guardian.

The psychological benefits of self-selection are considerable, both before and after the declarant needs a guardian. After designating a guardian, a person may be more secure about the future, knowing that should anything happen to him, his personal affairs and business concerns would be handled by a trusted family member, friend, or financial institution. Just as a will may relieve some of the fears that accompany the anticipation of death,[135] a self-declaration of guardian may alleviate the stress associated with accepting the prospect of becoming unexpectedly disabled or that a current disease or injury will worsen, leading to incapacity. Likewise, a disabled person will gain strength from knowing that he is still having an effect on his situation by seeing a guardian appointed in accordance with his wishes. The self-selected guardian may have more detailed knowledge of the ward's desires and may thus be able to provide a more supportive environment as well as one more conducive to comfort and perhaps even recovery.

B. Reduced Chance of Undesired Person Serving as Guardian

If a valid self-declaration of guardian exists, the chance of a person being appointed as guardian who is unsuitable to the ward is greatly

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134. *See, e.g.*, Boylan v. Kohn, 172 Ala. 275, 55 So. 127 (1911) ("The paramount consideration of the law has always been the best interests of the ward and of his estate, and this is peculiarly the case in respect to the selection of his guardian."); *In re* Estate of Bennett, 122 Ill. App. 3d 756, 461 N.E.2d 667 (Ill. Ct. App. 1984) ("the primary concern in the selection of a guardian is the best interest and well being of the disabled person"); *In re* Kane, 121 N.Y.S. 667, 667 (Thompkins County Ct. 1910) (purpose of court in appointing guardian for incompetent adult is "the welfare and comfort of the incompetent and his interests").

135. *See* Shaffer, *The "Estate Planning" Counselor and Values Destroyed By Death*, 55 Iowa L. Rev. 376, 377 (1969) (individuals who plan their estates become "more aware of their lives, more reconciled to what is real in their lives, and better able to make choices and to develop").

reduced. Presumably, the declarant would give careful thought to the nomination so that undesirable family members, friends, and institutions are not listed. If the court believes it to be in the ward's best interests, however, others may be appointed in contradiction to the ward's intent, albeit unexpressed.[136]

Accordingly, the best method to prevent a particular person from serving as guardian is for the declarant to include a statement in the designating document which indicates that person's unsuitability without requiring the declarant to detail the reasons behind his decision to exclude that person. Inclusion of such information would open the door to the court making an evaluation of the declarant's reasoning. This evaluation would be unproductive because the only issue in disqualification situations is whether the declarant had sufficient mental capacity when he excluded the named person; it is irrelevant whether the court agrees with the wisdom of the declarant's decision.

The effect of a non-nomination is questionable in most jurisdictions because most statutes and accompanying fill-in forms fail to address the issue;[137] only the Texas form provides for express disqualification.[138] The inclusion of an express disqualification provision is especially important in cases where the ward is so disabled that he is unable to express his displeasure with a particular guardian.

C. Conservation of Resources

Self-declarations of guardians may also conserve valuable resources. When a guardian is pre-selected, the court's expenditure of time to ascertain the identity of a proper guardian is reduced.[139] Unless the appointment of the nominee is contested for cause, the court will be

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136. *See* Jorrie & Krier, *supra* note 113, at 28 (discussing difficulties arising if the declarant is not given the ability to preclude a person from serving as guardian).

137. Even in the absence of a statute authorizing a non-nomination, courts may give consideration to a person's expressed wishes. *See In re* Green's Guardianship, 125 Wash. 570, 216 P. 843 (1923) (incompetent's indication that a particular person should not serve as guardian was one of many factors the court considered in holding that such person was improperly appointed); Gorman, *Planning for the Physically and Mentally Handicapped*, 11 INST. ON EST. PLAN. 15-1, 15-31 to -32, 15-37 to -39 (1977) (suggests that nominating document indicate individuals who the declarant does not want appointed as guardian despite the non-binding affect of the request because the statement would be helpful to the court).

138. TEX. PROB. CODE ANN. § 118A (Vernon Supp. 1989).

139. Studies have shown that most guardianship cases are uncontested and that the judge rarely makes a detailed inquiry into the person nominated as guardian in the petition. *See* ALLEN, FERSTER & WEIHOFEN, *supra* note 3, at 91 (1968). This practice may lead to undesirable persons being appointed as guardian, especially if the incompetent person is unable to articulate his displeasure with the nominee.

able to handle guardian appointments quickly and effectively. Should reasons for the preferred guardian's disqualification be discovered from evidence presented in court, that same evidence is likely to indicate the reasons the court should appoint the designated alternate, again conserving the court's resources. Because less court time will be required, fewer assets of the declarant's estate will be dissipated for court costs and attorney's fees.[140] The accelerated appointment procedure will also place the ward's person and estate into competent hands more rapidly, perhaps before serious personal or business problems arise.

D. Potential for Abuse

Perhaps the greatest concern with the enactment of self-declaration of guardian fill-in forms is the potential for abuse. If a self-designation document is obtained through fraud, duress, or other coercion, the negative ramifications to the ward are particularly harmful because the designated guardian could abuse his power causing the declarant tremendous financial and psychological hardship, physical pain, and even a premature death. Likewise, a document executed by a declarant who does not fully understand the legal significance of what is being done may result in designations that do not actually reflect the declarant's intent.

Accordingly, some critics argue that the price of greater self-determination encouraged by the existence of a simple statutory form is not worth the risk.[141] Conversely, others urge that the significant advantages of a self-designation should not be withheld from the public because the forms may be improperly completed or abused by a few unscrupulous individuals.[142] As one commentator has stated, "Every device that enables people to act for themselves is subject to abuse and misunderstanding. But most people have a basic store of common sense. They are honest, fair and intelligent enough to know when they need advice."[143]

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140. *See* 11 D. Malouf, West's Texas Forms - Estate Planning § 4A.8 (Supp. 1989) (discussing Texas' fill-in form, author concluded that "[t]he pre-selection of a guardian (and more particularly the prohibition of someone undesirable from serving as guardian) could have prevented some of the really hard-fought and expensive litigation in the past").

141. *Cf.* Lustgarten, *Against Such Wills*, Tr. & Est., Jan. 1984, at 9 ("statutory will would do great disservice to the families of persons availing themselves of it").

142. *See* Zartman, *The New Illinois Power of Attorney Act*, 76 Ill. B.J. 546, 553 (1988) (in discussing statutory durable power of attorney fill-in form which provides for guardian nomination, author concludes that potential for abuse and misunderstanding is counterbalanced by ability of people to control their own affairs); *cf.* Blattmachr, *"Statutory Will" Positive Development*, Tr. & Est., Jan. 1984, at 8 (statutory will fill-in forms are "a great service to the Bar and to the public").

143. Zartman, *supra* note 142, at 553.

V. Recommendations

The ability of a person to nominate a guardian before the need arises, coupled with the likelihood of a court appointing that person, is an important part of a comprehensive estate plan. It is foreseeable that many individuals would choose to exercise this right to obtain the benefits of guardian self-selection.[144] Because self-designations may be used by a broad segment of the population, it would be consistent for legislatures to provide fill-in forms as they have for wills,[145] durable powers of attorney,[146] living wills,[147] and other estate planning documents.[148]

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144. The author's personal experience reflects that more than 80% of people desiring estate plans are very excited about the prospects of selecting their own guardian and, under Texas law, disqualifying certain individuals from possible appointment.

145. *See* Cal. Prob. Code §§ 6240-46 (Deering Supp. 1988); Me. Rev. Stat. Ann. tit. 18A, § 2-514 (Supp. 1987); Mich. Comp. Laws Ann. § 700.123c (West Supp. 1988); Wis. Stat. Ann. §§ 853.50-.62 (West Supp. 1988).

146. *See* Alaska Stat. § 13.26.332 (Supp. 1988); Cal. Civ. Code § 2450 (West Supp. 1988); Ill. Ann. Stat. ch. 110½, para. 803-3 (Smith-Hurd Supp. 1988); Minn. Stat. Ann. § 523.23 (West Supp. 1988); N.C. Gen. Stat. § 32A-1 (1987).

147. *See* Ala. Code § 22-8A-4(c) (1984); Alaska Stat. § 18.12.010(c) (1986); Ariz. Rev. Stat. Ann. § 36-3202(C) (1986); Ark. Stat. Ann. § 20-17-202(b) & (c) (Supp. 1987) (two forms are provided; one for use when patient is in a terminal condition and another for use when patient is permanently unconscious); Cal. Health & Safety Code § 7188 (West Supp. 1989); Colo. Rev. Stat. § 15-18-104(3) (Supp. 1986); Conn. Gen. Stat. Ann. § 19a-575 (West Supp. 1988); D.C. Code Ann. § 6-2421(c) (Supp. 1988); Fla. Stat. Ann. § 765.05(1) (West 1986); Ga. Code Ann. § 31-32-3(b) (1985); Haw. Rev. Stat. § 327D-4 (Supp. 1987) (form for physicians' certification of patient's terminal condition also provided; *id.* § 327D-10(b)); Idaho Code § 39-4504 (1985); Ill. Ann. Stat. ch. 110½, para. 703(e) (Smith-Hurd 1987); Ind. Code Ann. § 16-18-11-12(b) (Burns Supp. 1988) (a life-prolonging procedures will declaration form also provided; *id.* § 16-18-11-12(c)); Iowa Code Ann. § 144A.3(3) (West Supp. 1988); Kan. Stat. Ann. § 65-28,103(c) (1985); La. Rev. Stat. Ann. § 40:1299.58.3(C)(1) (West Supp. 1989); Me. Rev. Stat. Ann. tit. 22, § 2922(4) (Supp. 1988); Md. Health-Gen. Code Ann. § 5-602(c) (Supp. 1988); 1989 Minn. Sess. Law Serv. ch. 3, § 4 (West) (to be codified at Minn. Stat. Ann. § 145B.04); Miss. Code Ann. § 41-41-107(1) (Supp. 1988) (statute also provides a form for revocation of a declaration; *id.* § 41-41-109(1)); Mo. Ann. Stat. § 459.015(3) (Vernon Supp. 1989) (form also contains a revocation clause); Mont. Code Ann. § 50-9-103(3) (1987); Nev. Rev. Stat. § 449.610 (1987); N.H. Rev. Stat. Ann. § 137-H:3 (Supp. 1988); N.C. Gen. Stat. § 90-321(d) (1985); Okla. Stat. Ann. tit. 63, § 3103(D) (West Supp. 1989); Or. Rev. Stat. § 97.055(1) (1987); S.C. Code Ann. § 44-77-50 (Law. Co-op. Supp. 1988); Tenn. Code Ann. § 32-11-105 (Supp. 1988); Tex. Health & Safety Code Ann. § 672.004 (Vernon 1990); Utah Code Ann. § 75-2-1104(4) (Supp. 1988) (statute also contains form for use by attending physician to certify various care and treatment alternatives; *id.* § 75-2-1105(4)); Vt. Stat. Ann. tit. 18, § 5253 (1987); Va. Code Ann. § 54.325.8:4 (Supp. 1987); Wash. Rev. Code Ann. § 70.122.030 (Supp. 1989); W. Va. Code § 16-30-3 (1985); Wis. Stat. Ann. § 154.03(2) (West Supp. 1988); Wyo. Stat. § 35-22-102(d) (1988).

148. Statutory self-proving affidavits are found in Ala. Code § 43-8-132 (Supp. 1988); Alaska Stat. § 13.11.165 (1985); Ariz. Rev. Stat. Ann. § 14-2504 (Supp. 1988);

A. Method of Self-Designation

Jurisdictions have employed two basic methodologies in enacting self-designation of guardian fill-in forms: as part of a statutory durable power of attorney form or as a separate document.[149] No state has supplied forms for both methods although several states authorize multiple techniques for guardian self-designation.[150] A state should refrain from resolving the debate as to which methodology is "better"; instead, the state should provide both options. Each method has its own positive and negative characteristics which are best evaluated by the individual who will use the form for his own particular needs.

Providing for the self-designation of a guardian as part of a durable power of attorney fill-in form encourages a person to plan for incom-

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COLO. REV. STAT. § 15-11-504 (Supp. 1986); DEL. CODE ANN. tit. 12, § 1305 (Repl. 1987); FLA. STAT. ANN. § 732.503 (West Supp. 1989); GA. CODE ANN. § 53-2-40.1 (Supp. 1988); HAW. REV. STAT. § 560:2-504 (Repl. 1985); IDAHO CODE § 15-2-504 (1979); IND. CODE ANN. § 29-1-5-3(b) (Burns Supp. 1988); IOWA CODE ANN. § 633.279(2) (West Supp. 1988); KAN. STAT. ANN. § 59-606 (1983); KY. REV. STAT. ANN. § 394.225 (Michie/Bobbs-Merrill 1984); ME. REV. STAT. ANN. tit. 18-A, § 2-504 (1981); MASS. ANN. LAWS ch. 192, § 2 (Law. Co-op. Supp. 1989); MINN. STAT. ANN. § 524.2-504 (West Supp. 1989); MO. ANN. STAT. § 474.337 (Vernon Supp. 1989); MONT. CODE ANN. § 72-2-304 (1987); NEB. REV. STAT. § 30-2329 (1985); NEV. REV. STAT. § 133.050 (1987); N.H. REV. STAT. ANN. §§ 551:2-a, :5-b (Supp. 1988); N.J. STAT. ANN. §§ 3B:3-4 to :3-6 (West 1983); N.M. STAT. ANN. § 45-2-504 (1978); N.C. GEN. STAT. § 31-11.6 (1984); N.D. CENT. CODE § 30.1-08-04 (Supp. 1987); OKLA. STAT. ANN. tit. 84, § 55 (West Supp. 1989); 20 PA. CONS. STAT. ANN. § 3132.1 (Purdon Supp. 1988); R.I. GEN. LAWS § 33-7-26 (1984); S.C. CODE ANN. § 62-2-503 (Law. Co-op. Supp. 1988); S.D. CODIFIED LAWS ANN. § 29-2-6.1 (1984); TEX. PROB. CODE ANN. § 59 (Vernon 1980); UTAH CODE ANN. § 75-2-504 (1978); VA. CODE ANN. §§ 64.1-87.1 to -87.2 (1987); WYO. STAT. § 2-6-114 (1980).

International will certificates are found in CAL. PROB. CODE § 6384 (Deering Supp. 1989); CONN. GEN. STAT. ANN. § 45-194e (West Supp. 1989); MINN. STAT. ANN. § 524.2-1005 (West Supp. 1989); N.D. CENT. CODE § 30.1-08.2-05 (Supp. 1987); OR. REV. STAT. § 112.232(5) (1987).

Anatomical gift forms are found in COLO. REV. STAT. § 12-34-105(5)(a) (1985); DEL. CODE ANN. tit. 16, § 2719 (Supp. 1988); D.C. CODE ANN. § 2-1504(b)(2) (1988); FLA. STAT. ANN. § 732.914(2)(b) (West 1976); IDAHO CODE § 39-3409 (1985); MD. EST. & TRUSTS CODE ANN. § 4-505 (Supp. 1988); MICH. STAT. ANN. § 14.15(10104)(2) (Callaghan 1988); MISS. CODE ANN. § 41-39-39(2) (1981); OHIO REV. CODE ANN. § 2108.10 (Baldwin 1987); W. VA. CODE § 16-19-4(f) (1985).

Form marital property agreements are found in WIS. STAT. ANN. §§ 766.588-.589 (West Supp. 1988).

149. *See supra* text accompanying notes 66-78.

150. *Compare, e.g.*, OHIO REV. CODE ANN. § 1337.09(B) (Baldwin 1988) (nomination in durable power of attorney) *with* OHIO REV. CODE ANN. § 2111.121(A) (Baldwin 1988) (nomination in will-like document); OKLA. STAT. ANN. tit. 58, § 1074B (West Supp 1989) (nomination in durable power of attorney) *with* OKLA. STAT. ANN. tit. 30, § 3-102 (West Supp. 1989) (nomination in written designation); WIS. STAT. ANN. § 243.07(3)(b) (West 1987) (nomination in durable power of attorney) *with* WIS. STAT. ANN. § 880.09(7) (West Supp. 1988) (nomination in will-like document).

petency more thoroughly. To complete the durable power of attorney form, a person is forced to examine a broader range of issues rather than just considering the appropriate person to nominate as guardian.[151] The best plan for incompetency often involves both a durable power of attorney and a guardian self-designation so that the same person designated as agent also serves, if needed, as the principal's guardian.[152] Conversely, consolidation of authority in one person may increase the risk of abuse. Also, durable power of attorney fill-in forms are complex and may be more confusing to a person who has not received legal advice than a form designed only for guardian self-designation.

If a separate fill-in form dealing only with the nomination of guardians is provided by statute, the length and complexity of the form is reduced. This may increase the number of individuals who will use the form and receive the benefits of self-designation.[153] However, a person using such a form may be misled into believing that additional planning for incompetency is not needed. The person may be well-advised to execute a durable power of attorney and thus, in many instances, avoid the necessity of guardianship and its concomitant problems of expense, publicity, embarrassment, and delay.[154] Self-designation makes guardianships less troublesome but does not eliminate the need for additional incompetency planning techniques.[155]

As stated above, a jurisdiction should elect to provide forms for both alternatives rather than resolve the debate between whether a self-declaration of guardian should be subsumed within a durable power of attorney or should exist independently.[156] Although no state has thus far provided alternative forms, several of the jurisdictions which authorize different methods of self-designation have enacted rules to resolve the

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151. *See* Zartman, *supra* note 142, at 546 (1988) (Illinois statutory power of attorney forms "designed to force consideration of a number of basic issues").

152. *See, e.g.*, UNIF. DURABLE POWER OF ATTORNEY ACT comment § 3, 8A U.L.A. 281-82 (1987) (permits principal to use durable power of attorney to designate guardian so "that the likely appointee in any future protective proceedings will be the attorney in fact or another equally congenial to the principal and his plans"); R. CAMPFIELD, ESTATE PLANNING AND DRAFTING 53-54 (1984) ("To avoid having someone try to vitiate the power by instituting incompetency proceedings, we can name the same individual as agent and conservator.").

153. *See supra* § D(1)-(3).

154. *See* R. CAMPFIELD, *supra* note 152, at 52 ("Conservatorships are expensive and time consuming. There is a stigma attached to incompetence and the proceedings are a matter of public record.").

155. *Id.* at 53 ("Predesignation of [c]onservator . . . does not solve all of the problems but at least the client will have some choices.").

156. *Cf.* 11 D. MALOUF, WEST'S TEXAS FORMS - ESTATE PLANNING § 4A.8 (Supp. 1989) (discussing whether attorneys should combine self-designation of guardian form with durable power of attorney form).

problem which arises when the durable power of attorney names one person as guardian and the separate self-designation nominates a different person. Generally, these provisions give preference to the most recently executed document.[157]

If a jurisdiction elects to provide a separate fill-in form for the predesignation of guardians, either alone or in conjunction with a durable power of attorney, the decision must be made as to what type of separate form should be adopted. As detailed earlier, two different types of separate forms are increasing in popularity: the will-like document[158] and the simple written designation.[159] The will-like document must be executed with formalities, thus reducing the chance of undetected fraud or overreaching. At the same time, however, these formalities may cause designations to be invalidated because of minor technical errors. Other types of written designations are simple to execute but may be more susceptible to abuse.

There is no easy way to ascertain the type of statutory fill-in form that will achieve the best result. Reported litigation concerning the existing statutory forms is scant[160] and any estimate of their effectiveness is speculative. The separate form should have some formalities, such as the signature of the declarant and the witnesses, to decrease the chance for fraud and undue influence[161] as well as to impress the seriousness of the occasion on the declarant.[162] States may be encouraged to implement these proposals if the National Conference of Commissioners on Uniform State Laws (N.C.C.U.S.L.) would take the lead in proposing such legislation.

The N.C.C.U.S.L. should immediately consider drafting a free-standing self-designation of guardian uniform act, including a fill-in form. In addition, the Uniform Statutory Form Power of Attorney Act[163] and

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157. *See, e.g.*, OHIO REV. CODE ANN. § 2111.121(B) (Baldwin 1987) ("court shall appoint the person nominated as guardian in the writing or durable power of attorney most recently executed"); OKLA. STAT. ANN. tit. 30, § 3-102(D) (West Supp. 1989) (statute also provides that if several nominating documents "bear the same most recent date the court may appoint one of the nominees or may appoint more than one of the nominees as coguardians").

158. *See supra* text accompaying notes 66-78.

159. *See supra* text accompanying notes 79-88.

160. The lack of reported case law may be due to the time required for the technique to gain acceptance among estate planning attorneys and the public. *See 11* D. MALOUF, WEST'S TEXAS FORMS - ESTATE PLANNING § 4A.8 (Supp. 1989) ("It will probably take a considerable time before this new device becomes well known among estate planners.").

161. *But see* Gulliver & Tilson, *supra* note 88, at 9 (doubtful that will formalities effectively protect the testator).

162. *See id.* at 5 ("ceremonial precludes the possibility that the testator was acting in a casual or haphazard fashion").

163. *See* UNIF. STATUTORY FORM POWER OF ATTORNEY ACT (1988).

the fill-in form provided therein, should be amended to provide for guardian self-designation. This would be a consistent step for the Commissioners because the Uniform Durable Power of Attorney Act and the Uniform Probate Code already authorize the nomination of guardians in a durable power of attorney.[164]

B. Contents of a Self-Designation Form

The current self-designation of guardian forms are not adequate to resolve the issues which must be addressed in guardianship planning. Many statutory forms fail to provide the opportunity to make separate designations of guardians of the person and guardians of the estate[165] or do not provide for the designation of successors.[166] Even the well-constructed Texas form could be improved to overcome its lack of warnings and instructions to inform non-attorneys of the nature and effect of the form.[167] Regardless of the type of self-designation form adopted by a particular jurisdiction, each fill-in form and its enabling legislation should, at a minimum, provide the following:

— Ability to name separate persons as guardian of the person and guardian of the estate;

— Provisions for alternate or successor guardians should a guardian be unable or unwilling to serve;

— Information, instructions, and warnings in plain language so non-attorney users will better understand how guardianship functions, the correct method of completing the form, and the effect of a properly completed form, along with a statement explaining that disability planning may also require a durable power of attorney;

— Ability to disqualify named persons from being appointed as guardians;

— The effect of a declarant's divorce from the designated guardian;

— An option to file the document with the clerk of the court so that the self-designation may be readily located, thus avoiding possible haphazard storage and further reducing the chance of unauthorized destruction;

— A description of revocation methods;

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164. Unif. Durable Power of Attorney Act § 3(b), 8A U.L.A. 280-81 (1987); Unif. Probate Code §§ 5-503, 5-305(b), 5-409(a)(2), 8 U.L.A. 514-15, 466-67, 487-88 (1987).

165. *See, e.g.*, Alaska Stat. § 13.26.335(3) (Supp. 1988); Okla. Stat. Ann. tit. 30, § 3-102(B) (West Supp. 1989).

166. *See, e.g.*, Cal. Civ. Code § 2450 (West Supp. 1988) (clause 7); Okla. Stat. Ann. tit. 30, § 3-102 (West Supp. 1989).

167. Tex. Prob. Code Ann. § 118A (Vernon Supp. 1990).

— A method of handling conflicting designations in multiple documents;

— A method to increase the chance of a document's authenticity to ensure that the declarant realized the importance of executing the document, e.g., requirement of witness(es) or an acknowledgment; and

— The ability to limit or expand the statutorily supplied powers of the guardian.

C. Sample Guardian Preference Act (including statutory form)

As an aid to states who may wish to enact a free-standing guardian self-designation statute, the following enabling legislation, complete with a fill-in form, is provided below for consideration.

GUARDIAN PREFERENCE ACT[168]

SECTION 1. SHORT TITLE

This Act may be cited as the Guardian Preference Act of _____.[169]

SECTION 2. DEFINITIONS

For the purposes of this Act,

(a) "Conservator"[170] means a person who is appointed by the appropriate court[171] to manage the declarant's estate under _____.[172]

(b) "Declarant" means a person who has executed a Guardian Preference Document.

(c) "Guardian" means a person who is appointed by the appropriate court[173] to care for the declarant's person under _____.[174]

(d) "Incompetent" means that a person is entitled to have a guardian or conservator appointed under _____.[175]

SECTION 3. CAPACITY TO EXECUTE A GUARDIAN PREFERENCE DOCUMENT

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168. The term "preference" is used, rather than "designation," "selection," or "nomination," so that it is clear that the document expresses a preference which, under certain circumstances, does not need to be followed by the court.

169. The name of the enacting jurisdiction should be inserted.

170. If the jurisdiction refers to a conservator as a "guardian of the estate," appropriate changes to this definition should be made.

171. The name of the court responsible for conservators may be specifically mentioned.

172. Reference to the jurisdiction's conservatorship statutes should be made.

173. The name of the court responsible for conservators may be specifically mentioned.

174. Reference to the jurisdiction's guardianship statutes should be made.

175. Reference should be made to other statutory definitions which explain when a person is incompetent, incapacitated, or otherwise unable to manage his own affairs so that a guardian or conservator is required.

A person, other than a minor who has not had the disabilities of minority removed or an incompetent person, may execute a guardian preference document under this Act.

SECTION 4. EXPRESSION OF PREFERENCES

(a) Nomination of Guardian and Conservator.

A declarant may designate persons, including alternates and successors, to serve as the declarant's guardian or conservator in a guardian preference document.

(b) Disqualification of Guardian and Conservator.

A declarant may disqualify named persons from serving as the declarant's guardian or conservator in a guardian preference document.

(c) Limitation of Guardian's or Conservator's Powers.

A person may expressly limit the authority otherwise granted to a guardian or conservator in a guardian preference document.

SECTION 5. REQUIREMENTS OF GUARDIAN PREFERENCE DOCUMENT

The guardian preference document must meet all of the following requirements to be valid:

(a) In writing;

(b) Signed by the declarant or in the declarant's name by another adult competent person who signs in the declarant's presence and by the declarant's direction;

(c) Signed by at least two adult competent persons who are not named as a guardian or conservator in the document and each of whom witnessed either (1) the declarant or the declarant's proxy signing the guardian preference document or (2) the declarant acknowledging the guardian preference document; and

(d) Accompanied by a self-proving affidavit signed by the declarant (or proxy) and the witnesses attesting to the competence of the declarant and the execution of the guardian preference document.

SECTION 6. EFFECT OF GUARDIAN PREFERENCE DOCUMENT

If the declarant requires a guardian or conservator, a valid guardian preference document shall have the following effect:

(a) Nominated Guardian and Conservator.

(1) A properly executed and witnessed guardian preference document accompanied by a self-proving affidavit is prima facie evidence that the declarant was competent at the time the document was executed and that the guardian and conservator named in the document would serve the declarant's best interest.

(2) Unless the court finds that the person designated in the document to serve as guardian or conservator is disqualified under

_____[176] or would not serve the best interests of the declarant, the court shall appoint the person as guardian or conservator in preference to those otherwise entitled to serve as guardian or conservator under _____.[177]

(3) If the designated guardian or conservator fails to qualify, is dead, refuses to serve, resigns, is removed or dies after being appointed guardian or conservator, or is otherwise unavailable to serve as guardian or conservator, the court shall appoint the next qualified designated alternate guardian or conservator named in the document.

(4) If the guardian or conservator and all alternates fail to qualify, are dead, refuse to serve, are removed, later die or resign, the court shall appoint another person to serve as otherwise provided in _____.[178]

(b) Disqualified Guardian or Conservator.

Under no circumstances may the court appoint a person disqualified from serving as a guardian or conservator in the declarant's guardian preference document.

SECTION 7. REVOCATION OF GUARDIAN PREFERENCE DOCUMENT

(a) Physical Act.

A guardian preference document is revoked if it is burned, torn, canceled, obliterated, or destroyed by the declarant, or by another person in the declarant's presence and by the declarant's direction, with the intent and for the purpose of revoking the guardian preference document.

(b) Subsequent Writing.

(1) Revocation Instrument

A guardian preference document is revoked if the declarant executes an instrument in conformity with this Act which indicates that the document is revoked.

(2) Subsequent Guardian Preference Document

The declarant's execution of a subsequent guardian preference document revokes all prior guardian preference documents.[179]

(c) Effect of Divorce.

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176. Reference to the appropriate state statute disqualifying certain persons from serving as guardian or conservator, e.g., minors, incompetents, and convicted felons.

177. Reference to the appropriate state statute prioritizing the individuals who are entitled to consideration for appointment as guardian or conservator.

178. Reference to the appropriate provisions governing the appointment of guardians and conservators.

179. If the jurisdiction permits guardian self-designation in any other way, e.g., through a durable power of attorney, a statement should be included that the most recently dated instrument of any type which purports to designate a guardian prevails.

If the declarant designates the declarant's spouse to serve as a guardian or conservator and the declarant is subsequently divorced from that spouse before a guardian or conservator is appointed, all provisions of the document designating the spouse have no effect.

SECTION 8. DEPOSIT OF GUARDIAN PREFERENCE DOCUMENT WITH THE COURT

A guardian preference document may be deposited by the declarant or the declarant's agent with any court for safekeeping under rules of the court. The guardian preference document shall be kept confidential. While the declarant is competent, the court may deliver the guardian preference document only to the declarant or to a person authorized by the declarant in a signed writing. Upon receipt of adequate evidence that proceedings to appoint a guardian or conservator for the declarant have been instituted, the court shall deliver the guardian preference document to the court in which such proceedings are pending.[180]

SECTION 9. FORM OF GUARDIAN PREFERENCE DOCUMENT

A guardian preference document and the accompanying affidavit may be in any form adequate to clearly indicate the declarant's intentions regarding nominating or disqualifying persons to serve as guardian or conservator. Except as provided in Section 10, the following forms may, but need not, be used:

GUARDIAN PREFERENCE DOCUMENT

THIS IS AN IMPORTANT LEGAL DOCUMENT. BEFORE COMPLETING THIS DOCUMENT, YOU SHOULD KNOW THESE IMPORTANT FACTS:

1. This form is used to nominate persons you would like to serve as your guardian or conservator should your physical or mental condition later require the court to appoint a guardian or conservator for you. The court will appoint the persons you indicate unless they are disqualified under the law or the court finds they would not act in your best interest.

2. A guardian is responsible for your person. Your guardian will make decisions regarding your living conditions, health, and safety.[181]

3. A conservator is responsible for the management of your financial affairs and your property.

4. Unless you specifically state otherwise, your guardian and conservator will have the powers to make decisions for you which are

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180. The same procedure that a jurisdiction uses for the deposit of wills could be adapted to work for guardian preference documents as well. *Cf.* UNIF. PROB. CODE § 2-901, 8 U.L.A. 176 (1987).

181. If the jurisdiction authorizes durable powers of attorney for health care, an appropriate reference to them should be made.

granted to them under state law. For example, your conservator will have the ability to sell your home and other property but will not have the ability to make gifts to your family members.[182]

5. If you appoint an agent under a durable power of attorney or durable power of attorney for health care, their authority ends upon the appointment of a guardian or conservator.[183] Accordingly, you may wish to consider naming the same person as guardian that you named as your agent in a health care power of attorney and the same person as conservator that you named as your agent in a property power of attorney.

6. The persons you nominate should be persons you know and trust. You should discuss with them your intent to nominate them to make certain you are comfortable with them and that they would be willing to serve should the need arise.

7. You may also use this form to disqualify persons from serving as your guardian or conservator. Under no circumstances will the court appoint persons that you disqualify.

8. This guardian preference document must be witnessed and signed by at least two adult competent persons who are not named as your guardian or conservator. Each of them must witness either your signing of the document or your acknowledging the document as yours.

9. This guardian preference document also requires that you and the witnesses go before a notary and sign an affidavit attesting to your competence and the execution of the document.

10. As long as you are competent, you may revoke this document. Some of the ways you may revoke this document include by physically destroying it or by executing another guardian preference document. If a later document is executed, the "last in time" controls any conflicting designations. A later guardian preference document must meet the same requirements as this form.

11. If you name your spouse as a guardian or conservator and are then divorced, all designations of your spouse will not be given effect.

12. You should keep this document in a place where it is likely to be found should you need a guardian or conservator. You may wish to tell your family or close friends that you have signed a guardian preference document and where you keep it. You also have the right to file this document with the court for safekeeping.

13. You do not need an attorney's assistance to complete this document but if there is anything in this document that you do not understand, you should ask an attorney to explain it to you.

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182. The examples given should comport with state law.

183. This provision should be altered to comport with state law.

14. Other legal techniques are also available to help you plan for potential disability. These include _____.[184]

GUARDIAN PREFERENCE DOCUMENT OF

_____

(print your name)

SECTION 1. NOMINATION OF GUARDIAN

I designate _____ to serve as my guardian, _____ as first alternate guardian, _____ as second alternate guardian, and _____ as third alternate guardian.

SECTION 2. NOMINATION OF CONSERVATOR

I designate _____ to serve as my conservator, _____ as first alternate conservator, _____ as second alternate conservator, and _____ as third alternate conservator.

SECTION 3. SUCCESSORS

If any guardian, conservator, or alternate dies, fails to serve, refuses to qualify, is removed or resigns, the next named alternate succeeds the prior named guardian or conservator and becomes my guardian or conservator.

SECTION 4. ALTERATION OF STATUTORY POWERS

The powers granted to guardians and conservators under state law shall be limited, expanded, or modified as follows:

_____

_____

_____ .

SECTION 5. DISQUALIFICATION OF GUARDIANS

I expressly disqualify the following persons from serving as my guardian: _____,
and _____.

SECTION 6. DISQUALIFICATION OF CONSERVATORS

I expressly disqualify the following persons from serving as my conservator: _____,
and _____.

SIGNED this _____ day of _____, 19__.

_____

184. Reference to state durable power of attorney statutes and, if enacted, statutory forms.

_____

Declarant

_____ _____

Witness Witness

SELF-PROVING AFFIDAVIT

Before me, the undersigned authority, on this date personally appeared the declarant and _____ and _____ as witnesses, and all being duly sworn the declarant said that the above instrument was his/her Guardian Preference Document and that he/she has made and executed it for the purposes therein expressed. The witnesses declared to me that they are each 18 years of age or older, that they saw the declarant sign the document or acknowledge the document, that they signed the document as witnesses, and that the declarant appeared to them to be of sound mind.

_____

Declarant

_____ _____

Witness Witness

Subscribed and sworn to before me by the above named declarant and witnesses on this the _____ day of _____, 19___.

_____

(SEAL) Notary Public in and for the State of _____.
My commission expires

_____

SECTION 10. COMMERCIALLY PUBLISHED GUARDIAN PREFERENCE DOCUMENTS

All guardian preference documents commercially prepared for sale or distribution shall be substantially in the form set forth in Section 9. Anyone who prints, distributes, or sells guardian preference documents in any other form shall be guilty of _____.[185] Failure of a commercially prepared guardian preference document to be in the required form shall have no effect on the validity of the document.

185. Insert appropriate misdemeanor offense under local law.

VI. Conclusion

From the beginning of recorded law, legal protection has existed for adults lacking the capacity to act for themselves. This protection should be continued and expanded to permit competent adults to indicate their preference regarding the individuals to be named as their guardian or conservator should the need arise. Unless the designated person is unfit, the courts should be required to comply with the individual's request. To encourage individuals to use this important estate planning technique, legislatures should enact laws directly addressing the self-declaration of guardian issue and include fill-in-the-blank forms designed for use by non-legally trained individuals.

Guardian self-selection benefits both the individual and the court. The declarant will achieve peace of mind by knowing that the individual to be appointed by the court is one that is trusted by the declarant. A self-selected guardian is more likely to be familiar with the declarant's desires and will thus provide a more supportive environment which may increase the incompetent's chances of recovery. Guardian self-declaration will also reduce the chance that a distrusted person will succeed to the role of the principal's guardian especially if potential guardians may be expressly disqualified. In addition, there will be a reduction of the costs associated with the proceedings to determine who is the most qualified person to serve as the incompetent's guardian. From the court's perspective, self-declaration achieves the ultimate purpose for which a guardian is appointed, viz, to encourage self-reliance, independence,[186] and the restoration of the declarant's health.[187] Court time is also conserved because the court need only determine if the declarant had capacity when the self-declaration was executed and that the designated individual is not disqualified.

There is no doubt that some unscrupulous individuals will abuse a self-declaration of guardian procedure. It is difficult, if not impossible, to provide a fail-safe procedure which prevents all improper use. Despite this risk, the author urges that the significant benefits of guardian self-selection should not be withheld from the public because of the fear of abuse or misuse by a few evil people.

Once a legislature decides that it wishes to provide its constituents with the opportunity to pre-select guardians, the decision must be made

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186. *See In re* Estate of Bennett, 461 N.E.2d 667, 671 (Ill. 1984) (guardianship should be used to encourage self-reliance and independence); Tex. Prob. Code Ann. § 130A (Vernon Supp. 1990) (guardianship should encourage development of maximum self-reliance and independence of the ward).

187. *See* Allis v. Morton, 70 Mass. 63, 64 (1855) (court should anxiously consult desires of the ward because his health may depend upon it).

as to the appropriate method. Numerous methods have been developed which usually involve a separate act to permit guardian self-selection or the attachment of guardian self-selection to other legislation, usually a durable power of attorney. Because each method has its own advantages and disadvantages, the recommendation is made that enabling legislation for both alternatives be enacted.

To further encourage people to avail themselves of the opportunity to designate their own guardian, legislatures should also provide statutory fill-in-the-blank forms. These forms could be completed by individuals without the necessity of hiring an attorney and incurring the accompanying expense. This author also urges that the National Conference of Commissioners of Uniform State Law draft a free-standing self-designation uniform act, complete with a fill-in form, as well as amend the Uniform Statutory Form Power of Attorney Act and the accompanying fill-in form to provide for guardian self-designation.

Individual states and the N.C.C.U.S.L. should appreciate the tremendous value of guardian self-designation and take rapid steps to make this estate planning technique widely available. The right of self-determination will then be enhanced as individuals will be better able to provide for themselves in the event of disability; a time in their lives when security in the future is needed but often not available.

The RICO/CRRA Trap: Troubling Implications for Adult Expression

Ken Nuger*

I. Introduction

Among the numerous freedoms Americans possess, perhaps the most cherished is the right to free speech.[1] It is a freedom so firmly rooted in Western society that its development can be viewed as a reaction against the authoritarian nature of societies in the middle ages.[2] Yet, while speech is normally viewed as a preeminent liberty, society may sometimes feel compelled to place realistic limitations on its exercise.[3] As early as 1798, Congress passed the Alien and Sedition Acts[4] to punish citizens who espoused views deemed dangerous to the security of the nation. Near the close of World War I, Congress passed the Espionage and Sedition Acts[5] to quell political unrest that developed as a result of the war and the successful Bolshevik revolution in Russia.[6] Free expression, however, is essential to maximize intelligent decision making in a democratic society. Therefore, restrictions on speech should be subject to careful judicial scrutiny.

Although the first amendment theoretically grants speech absolute protection, it is not accorded absolute protection in practice. Accordingly, limitations on free speech cause considerable controversy. In the twentieth century in particular, the Supreme Court has painstakingly debated the

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1. Nearly all commentators recognize the importance of free speech. Perhaps Justice Cardozo best summarized the essential character of free speech when he wrote that the freedom of thought and speech is the "matrix, the indispensable condition, of nearly every other form of freedom." Palko v. Connecticut, 302 U.S. 319, 327 (1937).

2. *See* J. Nowak, R. Rotunda & J. Young, Constitutional Law 858 (1983).

3. While the first amendment is framed in absolute terms, "Congress shall pass no law . . . abridging the freedom of speech . . .," the Supreme Court has upheld a variety of restrictions on several forms of speech.

4. Alien Act of June 25, 1798, ch. 58, 1 Stat. 570. Sedition Act of July 14, 1798, ch. 74 1 Stat. 596.

5. Espionage Act of June 15, 1917, ch. 30, 40 Stat. 217. Sedition Act of May 16, 1918, ch. 75, 40 Stat. 553.

6. *See, e.g.*, Murray, Red Scare 3-17 (1955).

reasonable limits government may impose on speech.[7] Depending on the speech form utilized, the Supreme Court has variously ruled that communication deserves from none to near absolute constitutional protection.[8]

This Case Note addresses one speech form, sexual expression, and the appropriate degree of constitutional protection to be afforded to it—a subject which provokes considerable controversy. While fraught with theoretical difficulties, sexual expression has been classified into one of three groups: 1) communication embraced by the first amendment; 2) obscene communication not protected by the first amendment; and 3) communication that, depending on one's view of its content, could enjoy first amendment protection. The controversy centers on the amount of protection that surrounds obscene communication. For example, once sexual expression is judged to be obscene, some courts argue, per *Chaplinsky v. New Hampshire*,[9] that it enjoys no first amendment protection.[10] Another view is the absolute approach espoused by Justice Hugo Black which argues the first amendment shields all forms of sexual expression.[11]

In addition to the controversy surrounding the degree of first amendment protection afforded to sexual expression, a debate has arisen over government seizure of sexual expression not yet judged as obscene. This analysis will explore whether governmental seizures of sexual expression

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7. Perhaps the most outspoken advocate for absolute constitutional protection of speech is Justice Hugo Black. His absolutist approach to the first amendment is best summarized in his dissent in Konigsberg v. State Bar of California, in which he argued the language of the first amendment precludes any balancing test by the courts or restrictive statutes by any legislative body. 366 U.S. 36, 60-61, 63 and 68 (1961). However, the absolutist view of free speech has never commanded a majority. Instead, the Supreme Court has adopted a balancing approach to speech. Generally, as Justice Harlan recognized for the majority in *Konigsberg*, some forms of speech, or speech in certain contexts, may be outside the scope of constitutional protection. Balancing criteria may be used to weigh the communication against perceived important governmental objectives. *Id.* at 49-51.

8. In Chaplinsky v. New Hamshire, Justice Murphy stated that certain forms of expression may not be protected by the first amendment. Included were fighting words, libel and obscenity. Justice Murphy distinguished these speech forms because they add nothing to the exposition of ideas and their very utterance could inflict injury or promote breaches of the peace. 315 U.S. 568, 571-72 (1942). However, for most speech forms, it is well established that protection is accorded unless the utterance, when taken in the context of surrounding circumstances, could create some type of clear and present danger to valid governmental objectives. *See* Schenck v. U.S., 249 U.S. 47, 52 (1919). Several sources discuss the development of the clear and present danger doctrine. *See, e.g.*, NOWAK, ROTUNDA AND YOUNG, *supra* note 2; L. TRIBE, AMERICAN CONSTITUTIONAL LAW (1988).

9. 315 U.S. 568 (1942).

10. *See* Roth v. United States, 354 U.S. 476, 485 (1957). While subsequent cases involving sexual expression are often concerned with definitions distinguishing obscene from non obscene expression once expression is defined obscene, courts exclude the material from first amendment protection. Miller v. California, 413 U.S. 15, 24 (1973).

11. *See supra* note 7.

not yet judicially defined as obscene results in an improper prior restraint of speech. This paper's framework shall: 1) trace the development of the prior restraint doctrine in American constitutional law and discuss the doctrine's realistic limitations; 2) argue that sexual expression has an important societal purpose deserving first amendment protection; 3) argue that unconstitutional prior restraint results when the government employs racketeering and civil recovery statutes to seize sexual expression without first utilizing a judicial determination that seized inventory is obscene; and 4) analyze the recent Supreme Court decision in *Fort Wayne Books, Inc. v. Indiana*,[12] which declared Indiana's pretrial seizure clause contained in the state's Civil Remedies for Racketeering Activity (CRRA) statute unconstitutional in part.[13] While the Court held that Indiana's CRRA forfeiture clause, when applied to expressive material, violates the first amendment, it left open the possibility for government to use the clause to seize non-expressive material, a result which could significantly deter free speech.

II. Prior Restraints and Constitutional Theory

A. Views on Prior Restraint

In its simplest form, a prior restraint proscribes publishing or uttering expressive material. It is distinguished from other forms of speech restrictions that punish only after the expressive material is published. While both forms of restraint can ultimately suppress speech, a prior restraint has a very different social impact. While restriction on published material occurs *after* the speech is communicated, a prior restraint censors communication, thereby depriving potential readers the benefit of the expressive element of the speech. The language of the first amendment addresses this concern. As Judge James B. McMillan[14] noted, the possibility for governmental tyranny embodied in a system of prior restraints did not go unnoticed by the country's founding fathers.[15] The framers of the Constitution were mindful of the atrocities of the Spanish Inquisition.[16] They knew too well of the English Crown's attempt to suppress expression.[17] They were especially conscious of the infamous

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12. 109 S. Ct. 916 (1989).
13. *Id.* at 927-30.
14. Federal District Court Judge, Western District, North Carolina.
15. McMillan, *Free Speech—Now More Than Ever*, 19 Wake Forest L. Rev. 1, 2 (1983).
16. *Id.*
17. *Id.*

seditious libel trial of colonial publisher Peter Zenger. In that trial, the Colonial judge kept the jury locked up without food or water in order to ensure the conviction of Zinger for his editorial criticism of the Royal Governor.[18] Recognizing the historical pattern of societal atrocities from governmental censorship, Judge McMillan believed it was not accidental that the first amendment was written using explicit terminology.[19]

While some scholars argue the sole purpose of the first amendment is to prevent prior restraints of any expressive material,[20] courts have recognized a few exceptions. Among material susceptible to prior restraint is communication which may pose a clear and present danger.[21] Similarly, material declared obscene enjoys no first amendment protection and may therefore be subject to a prior restraint.[22]

While one may be able to justify prior restraints under certain conditions, several problems remain with the concept. First, prior restraints infringe on one's right to disseminate expressive material. Second, they become operative before a judicial tribunal finally determines that the material enjoined falls outside first amendment protection.[23] Since prior restraints require substantial governmental justification before a court will sustain its use, and since speech is generally stringently protected, prior restraints are rare. However, courts do impose prior restraints under certain conditions. Therefore, consideration of the evolution of the doctrine and justification is appropriate before analyzing the relationship between prior restraints and sexual expression.

B. Constitutional Law and the Doctrine of Prior Restraint

In the landmark decision of *Near v. Minnesota*,[24] the Supreme Court first enunciated narrow, but definitive, forms of expression that may be curtailed by prior restraint. In *Near*, the Court reversed a state court conviction of the publishers of *The Saturday Press*, who had published a series of antisemitic articles about local officials.[25] In reversing the

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18. *Id.*
19. *Id.*
20. Comment, *Regulation of Obscenity Through Nuisance Statutes and Injunctive Remedies—The Prior Restraint Dilemma*, 19 WAKE FOREST L. REV. 7, 9 (1983). *See supra* note 15 for a brief analysis supporting the absolute characteristics of the first amendment free speech clause. Both L. Levy and Z. Chaffee assert that English Common Law after the English Licensing System expired in 1695 supported the view that a prior restraint was a drastic infringement on free speech, even more so than a subsequent punishment for the effects of speech already printed or uttered. *Id.* at note 14.
21. Schenck v. United States, 249 U.S. 47, 52 (1919).
22. Chaplinsky v. New Hampshire, 315 U.S. 568, 571-72 (1942).
23. *Chaplinsky*, 315 U.S. 568.
24. 283 U.S. 697 (1931).
25. *Id.*

conviction, the Court ruled unconstitutional a Minnesota statute authorizing an injunction against any person regularly publishing or circulating obscene, lewd or lascivious, or malicious, scandalous and defamatory material.[26] The Court reasoned:

> The operation and effect of the statute in substance is that public authorities may bring the owner or publisher of a newspaper or periodical before a judge upon a charge of conducting a business of publishing scandalous and defamatory matter . . . and unless the owner or publisher is able and disposed to bring competent evidence to satisfy the judge that the charges are true and are published with good motives and for justifiable ends, his newspaper or periodical is suppressed and further publication is made punishable as a contempt. This is the essence of censorship.[27]

Significantly, *Near* suggests some areas of communication may be susceptible to a prior restraint. By recognizing that government can impose restraints to prevent clear and present dangers to the security of society and to prevent publishing obscene or libelous material, the Court established new criteria determining speech limitations.[28] While some writers were initially outraged at *Near's* implications, its rationale is now only sporadically challenged.[29]

Courts currently apply prior restraints to sexual expression, but only with specific procedural safeguards in order to assure due process protection. In 1957, the Supreme Court ruled in *Kingsley Books, Inc. v. Brown*[30] that a prior restraint can properly be attached to material judicially declared obscene. However, in keeping with constitutional due process requirements, persons, firms or corporations enjoined are entitled to a trial within one day of the injunction and a final decision on the merits within two days after the trial's end.[31]

The Supreme Court further defined procedural due process requirements required for speech injunctions in 1965 when it decided *Freedman v. Maryland*.[32] In *Freedman*, the Court developed a three pronged process that censoring agents must utilize to assure the constitutionality of prior restraint imposed on a film.[33] First, the censor must bear the burden

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26. *Id.* citing MINN. STAT. §§ 10123-1 to -3 (1927).
27. *Near*, 283 U.S. at 713.
28. *Id.* at 716.
29. *See, e.g.*, Emerson, *The Doctrine of Prior Restraint*, 20 LAW & CONTEMP. PROB. 649 (1955).
30. 354 U.S. 436 (1957).
31. *Id.* at 437 n.1.
32. 380 U.S. 51 (1956).
33. *Id.* at 58-59.

of proving that the content of the material lacked constitutional protection.[34] Second, any restraint prior to judicial review may only be imposed for a specified brief period and only to preserve the *status quo*.[35] Third, a prompt judicial determination must be made available to determine whether the material is subject to constitutional protection.[36]

Freedman's implications are unmistakable. Prior restraints on speech may only be acceptable if clearly defined procedural safeguards assuring one's first amendment guarantees are written into the statute. *Freedman* does not necessarily require the same levels of proof to enjoin sexual expression as might be necessary in a case involving political expression. However, requiring the censor to justify its action in a judicial proceeding would minimize the chance that unbridled governmental discretion would result in a first amendment violation.

The procedural requirements of *Freedman* have been applied in other censorship cases. In *Southeastern Promotions, Ltd. v. Conrad*,[37] the Supreme Court invalidated a municipal action quashing the production of the rock opera "Hair" because the requirements necessary to obtain an injunction were inconsistent with the standards required by *Freedman*.[38] More recently, the Supreme Court in *Vance v. Universal Amusement Co.*[39] declared unconstitutional two Texas statutes[40] allowing authorities to enjoin individuals from creating a nuisance. The statute defined nuisance as the commercial manufacturing, distribution or exhibition of obscene materials.[41] The *Vance* Court concurred with the findings of both the district and appellate courts, holding that the statute impermissably allowed prior restraints of an indefinite duration on motion pictures not yet declared obscene.[42] Specifically, the statute stated that if the attorney general, county, or district attorney believed a nuisance exists, they may initiate a suit immediately, enjoining the defendant from

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34. *Id.*

35. *Id.* Current racketeering statutes fail to require specific brief periods between the time an injunction is issued and timely judicial review regarding the injunction's permissibility. E.g., in Fort Wayne Books v. Indiana, 109 S. Ct. 916 (1989) the property seizure and resulting padlocking lasted over a year without a final judicial determination that the government had met the burden of proof to justify the seizure. Also, when a property seizure is exercised on inventory already on display and not material waiting to be placed on display, as was the case in *Freedman*, the seizure has the effect of altering, not ensuring, the *status quo*.

36. *Freedman*, 380 U.S. at 59.

37. 420 U.S. 546 (1975).

38. *Id.*

39. 445 U.S. 308 (1980).

40. Tex. Rev. Civ. Stat. Ann. art. 4666 (Vernon 1952); Tex. Rev. Civ. Stat. Ann. art 4667(a) (Vernon 1982).

41. Tex. Rev. Civ. Stat. Ann. art. 4667(a) (Vernon 1982 and Supp. 1989).

42. *Vance*, 445 U.S. at 316.

pursuing the alleged nuisance pending final adjudication on the complaint.[43] According to the statute, if the court ruled in favor of the state, the activity would be suppressed for one year unless the defendant met the state's requirement to alleviate the nuisance.[44]

In *Vance*, the Court distinguished between regulating normal nuisances from expressive material which enjoys a heightened degree of first amendment protection.[45] In essence, the state could not define an area of expressive material a public nuisance and restrain it unless strict procedures stating time tables, as required by *Freedman*, were in place to guide prompt judicial review.[46] Ultimately, the Court adopted the Texas Court of Appeal's conclusion by stating: "[T]he burden of supporting an injunction against a future exhibition is even heavier than the burden of justifying the imposition of a criminal sanction for a past communication."[47] Rooted in this statement is the theory recognized in *Southeastern Promotions*[48] that when society attempts to quash speech, there must be prompt procedures assuring the limitation conforms with established first amendment principles.[49]

The holding of the *Vance* Court should not be construed to create insurmountable barriers prohibiting government from instituting speech injunctions prior to a judicial determination of whether the speech is constitutionally protected. Some case law suggests that injunctive standards requiring only a swift evidentiary hearing and ultimate, judicial determination assures the constitutionality of an injunction imposed on expression not yet been declared outside first amendment protection. For example, in *Ohio ex rel. Ewing v. A Motion Picture "Without a Stitch"*,[50] the Ohio Supreme Court upheld a statute[51] which permitted a temporary restraining order on material not yet judged beyond first amendment protection.[52] The statute empowered any citizen with the authority to initiate an abatement action in the name of the state in order to prevent a public nuisance.[53] Upon making an application for

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43. *See supra* note 42.

44. *Id.*

45. *Vance*, 445 U.S. at 315.

46. *Id.* at 317. Under Texas Rules of Civil Procedure, the state could obtain a temporary restraining order and have a hearing on the restraining order within ten days. Beyond that, there is no provision governing the final adjudication on obscenity charges. *See* TEX. R. CIV. P. ANN. art. 680-88 (Vernon Supp. 1989).

47. *Vance*, 445 U.S. at 315-16.

48. 420 U.S. 546 (1975).

49. *Vance*, 445 U.S. at 316, n. 13 (citing *Southeastern Promotions* 420 U.S. 546 at 559).

50. 37 Ohio St.2d 95, 307 N.E.2d 911 (1974).

51. OHIO REV. CODE ANN. §§ 3767.03 (Anderson 1988).

52. *Ewing*, 37 Ohio St. 2d at 97, 307 N.E.2d at 913.

53. OHIO REV. CODE ANN. § 3767.05 (Anderson 1988).

a temporary injunction, the statute required a judge to conduct a hearing within ten days to determine whether a public nuisance existed.[54] If the judge ruled that the nuisance could exist, he could authorize a temporary restraining order that would become permanent if the material was ultimately declared obscene after a trial on the issue.[55]

The constitutionality of this statute was upheld because it required some judicial determination that a public nuisance could exist before government could issue a temporary restraining order. Unlike the procedure used in *Freedman*, the Ohio statute addresses films currently being shown, rather than individuals seeking a license to show a film some time in the future. However, as in *Freedman*, the court required that some initial judicial determination commence within a quick and specified time period. While the temporary restraining order may last indefinitely pending a final judicial determination, it is at least premised on a hearing on the merits.

A temporary injunctive procedure was also upheld in *South Florida Art Theatres, Inc. v. Florida ex rel. Mounts*.[56] In this case, Florida law permitted a circuit court to issue a temporary injunction after the state attorney, county solicitor, or prosecuting attorney filed a complaint.[57] As in *Vance* and *Freedman*, the Florida statute required a prompt summary judicial examination of the material. Specifically, an adversary hearing was required on the first business day after the injunction was issued to determine whether the order should continue pending a final ruling on the case.[58] While the Florida Supreme Court warned that temporary restraining orders should be cautiously used, the constitutionality of the statute was upheld because the strict procedural requirements found in the statute were consistent with the due process standards set forth in *Freedman*, *Vance*, and *Southeastern Promotions*.[59]

C. The Relationship Between Standards Injunctions and Prior Restraint

In his dissenting opinion in *Vance*, Justice White opined that the Texas statute at issue presented no first amendment problem because the statute required a prompt judicial hearing after the injunction issued.[60] Courts have accepted this view and have held that, as long as there is

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54. *Id.*
55. *Id.*
56. 224 So. 2d 706 (Fla. Dist. Ct. App. 1967).
57. FLA. STAT. ANN. § 847.011(8)(a) (West 1976).
58. 224 So. 2d at 713.
59. *Id.*
60. *Vance*, 445 U.S. at 320-25 (White, J., dissenting).

a timely judicial hearing, statutes enjoining speech not yet declared obscene may still be acceptable. This development is squarely inconsistent with the conclusion in *Near* that any prior restraint bears a heavy presumption of unconstitutionality. As a result, these standards injunctions[61] legitimize government's ability to determine one form of conduct unacceptable and prohibit it prior to final adjudication.

Justice White's position would find "any injunction that is sufficiently analogous to a criminal prohibition justifying subsequent criminal punishment [would be] constitutionally permissible."[62] While supporters of the standards injunction argue that they are merely personalized criminal obscenity statutes that punish after adjudication, key differences between standards injunctions and criminal statutes exist. While it may be true that "nothing substantive has changed: the same obscenity definition is being applied,[63] the same procedural safeguards are in place,[64] and punishment in the form of imprisonment or fine is still not imposed until obscenity is proven,"[65] the fact that an injunction has been issued charges enforcement of obscenity laws.[66] From the distributors' position, the changes in enforcement of obscenity prohibitions create important, if subtle, difficulties for the procedurally fair administration of criminal justice.

One commentator correctly recognizes that standards injunctions alter the choice of whom to prosecute.[67] He notes that:

> Since the injunctive prohibition is judicially created it involves an implicit commitment of resources. The standards injunction puts judicial authority in question and a prosecutor, in order to maintain that authority, must be certain to enforce the in-

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61. Professor Rendleman defines a standards injunction as one that prohibits individuals from displaying unnamed obscene matter. Essentially, the statute identifies a prohibited form of conduct, here obscenity, and then prohibits activity that could be construed as the prohibited conduct. Rendleman, *Civilizing Pornography: The Case for an Exclusive Obscenity Nuisance Statute*, 44 U. CHI. L. REV. 509 (1977).

62. Note, *Enjoining Obscenity as a Public Nuisance and the Prior Restraint Doctrine*, 84 COLUM. L. REV. 1616, 1621 (1984) [hereinafter *Enjoining Obscenity*].

63. *Id.* at 1624.

64. *Id.* The author seems to assume that the procedures are all essentially similar in obscenity prosecutions. The general procedural requirements pertaining to obscenity challenges are defined in Freedman v. Maryland, 380 U.S. 51 (1965).

65. *Enjoining Obscenity*, *supra* note 62, at 1624. That punishment is not imposed until obscenity is proven "is inherent in the criminal context. It is also true of the standards injunction: dissemination of sexually explicit materials by an enjoined party results in a violation of the standards injunction only after the material has been determined obscene in a contempt proceeding." *Id.* n.66.

66. *Id.* at 1624.

67. *Id.*

> junction's prohibition. Thus, decisions regarding allocation of limited prosecutorial resources—decisions that have a recognized role in our judicial system are skewed. Prosecutors may bring actions not against those distributors they feel are most invidious, but against those distributors already under a standards injunction. An enjoined distributor will recognize this increased prosecutorial attention and will be led to self-censorship.[68]

Issuing an injunction, therefore, is but another deterrent government may employ against those disseminating sexual expression.[69] Issuing an injunction, even a temporary order, is a primary judicial tool to enforce compliance of judicial decisions because it permits individuals and the government to cease activity perceived to be offensive, but not, as of the moment, illegal.[70] Enjoined individuals, though not yet convicted of a crime, will be reluctant to violate the injunction.[71] Ultimately, therefore, injunctions prohibiting speech not yet declared obscene create a new regulatory system intended to forcefully and personally suppress forms of conduct some individuals and government officials find offensive, but not necessarily illegal.[72]

Individuals faced with the ability of the government to use standards injunctions will feel the need to impose heightened self censorship.[73] Since one cannot know precisely what is obscene until final court adjudication, individuals will now find that government can effectively punish them for behavior not yet ruled obscene. Government's increased ability to regulate activity not yet declared obscene will cause individuals engaged in disseminating sexual expression to be much more cautious. While some may applaud the government for pursuing activities that increase society's awareness of what may be illegal behavior to the point that individual self restraint is heightened, doing so with potentially protected speech jeopardizes first amendment rights.

Even if one recognizes that governmental mechanisms, such as a standards injunction, act as a type of prior restraint susceptible to constitutional scrutiny, advocates of this form of censorship justify the restraint on the basis that the relationship of sexual expression to free speech is substantially less than other forms of speech. Therefore, presumptions of the unconstitutionality of the restraint can be rationally mitigated by the decreased utility of sexual expression in the marketplace

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68. *Id.* at 1624-25 (notes omitted).
69. *Id.* at 1626.
70. *Id.* at 1625.
71. *Id.*
72. *Id.* at 1625.
73. *Id.* at 1624-26.

of ideas.[74] This view is recognized either inferentially or explicitly in several Supreme Court rulings and works of legal scholarship. For example, in *Chaplinsky v. New Hampshire*,[75] one of the earliest cases iterating views on obscenity, Justice Murphy argued that "lewd and obscene" speech is among "well-defined and narrowly limited classes of speech, the prevention and punishment of which have never been thought to raise any Constitutional problems."[76] However, since *Chaplinsky*, the Court has recognized some value in sexual expression and has grappled with the extent of constitutional protection given to sexual expression not declared obscene.[77] Similarly, scholars have theorized about the worth of sexual expression and the degree of constitutional protection it deserves.[78]

III. A Defense of Sexual Expression

A. Historical Antecedents

One could argue that all speech, including sexual expression, should enjoy substantial, if not absolute, first amendment protection. This argument has an historical basis and can easily fit into our contemporary, culturally diverse society. Professor David Richards argues that all expressive material bearing on the value of living should enjoy first amendment protection.[79] Professor Richard's argument is historically rooted and based on the religion clause of the first amendment. His argument equates the right to free speech with the right to conscience guaranteed

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74. The marketplace of ideas theory of speech relies on the premise that the ultimate good is more realistically reached when all ideas compete freely in society. For a more detailed constitutional justification of the marketplace of ideas theory of free speech, see Justice Holmes' dissenting opinion in Abrams v. United States, 250 U.S. 616, 630 (1919).

75. 315 U.S. 568 (1942).

76. *Id.* at 571-72.

77. The Supreme Court, beginning with Roth v. United States, 354 U.S. 476 (1957), decided a series of cases attempting to ascertain when sexual expression is protected speech and when it is merely obscene. The Court's major focus in these cases has been to determine whether and to what extent sexual expression has some social, artistic, scientific, literary or medical value to society.

78. Scholarship on sexually oriented expression has been developed within myriad frameworks. A cursory review of the literature substantiates the notion that over the years, scholarship on the subject runs well into the thousands. The mere volume of these writings suggest that sexual expression is a subject which people hold passionate. With the massive intrigue commanded by sexual expression, this commentator finds it somewhat inconsistent to assume that sexual expression does not significantly affect the marketplace of ideas.

79. Richards, *Pornography Commissions and the First Amendment*, 39 Me. L. Rev. 275, 289 (1987) [hereinafter *Pornography and the First Amendment*].

by the religion clause.[80] Professor Richards finds support in Madison's view that the first amendment prevents government from imposing restrictions on speech because this would require the government to judge the worth of different ideas.[81] Further support is found by Richards in Jefferson's view that religious liberty should not be subject to any governmental regulations.[82] While Jefferson emphasized that religious liberty should be nearly absolute because it is an expression of the most fundamental values guiding personal and ethical conduct,[83] Madison believed the same principles justifying the exalted status of religious liberty should be applied to all forms of speech.[84] Richards recognizes that the core of this argument is predicated on John Locke's assumption that each individual should have an absolute right to engage in communication linking one's own views to moral and ethical conduct. Regulating both moral and ethical conduct places an aura of superiority on a particular belief system over another.[85] Richards argues this type of regulation insults and degrades peoples' moral competence to reasonably entertain other beliefs.[86] In sum, Richards argues that both individuals and society must remain free from stifling governmental regulations. This will foster everyone's unalienable right to access all expressive material that bears upon the exercise of their rationality and reasonableness to form theories of how best to find authentic value in their personal and ethical lives.[87]

B. Juxtaposing Historical With Contemporary Viewpoints

The historical context of Richard's argument is easily assimilated in contemporary first amendment theory. Barry Lynn advances a most persuasive argument suggesting that sexual expression must enjoy substantial first amendment protection.[88] Contrary to views traditionally espoused by the Supreme Court, Lynn argues sexual expression fulfills the traditional functions of speech.[89] It transmits ideas, promotes self-realization and can serve as a safety valve for both speaker and audience

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80. *Id.*
81. *Id.* at 288.
82. *Id.* at 283-84.
83. *Id.* at 277-88.
84. *Id.*
85. *Id.* at 285 n.66.
86. *Id.*
87. *Id.* at 289.
88. Lynn, *Civil Rights Ordinances and the Attorney General's Commission: New Developments in Pornography Regulation*, 21 HARV. C.R.-C.L. L. REV. 27 (1986) [hereinafter *New Developments in Pornography Regulation*].
89. *Id.* at 48.

alike.[90] Sexual expression also has educational value because it often depicts and describes sexual activity in detail.[91]

It is beyond dispute that sexual expression transmits potentially important ideas by promoting and provoking a variety of attitudes about sexuality. Sexual expression can promote a myriad of emotions such as joy, hostility, romance, love, hate, as well as promote aesthetics, views of morality, and perceptions of beauty or ugliness. The range of emotions affected by sexual expression could be endless. These ideas can be isolated to bear only on sexual matters or can be extrapolated in a way that has definite political overtones.

Since political expression is deemed to be highly valued and thus enjoys heightened first amendment protection,[92] attaching the same value to sexual expression would have the effect of raising the constitutional protection afforded sexual expression. Sexual expression is much like political expression. It can influence ones' view on morality, about the status of men and women toward each other and their proper roles in society, thereby promoting different political and ideological viewpoints.[93] For example, feminists may see sexual expression as discriminatory.[94] Many religious groups perceive sexual expression as immoral, while still others argue strict regulation of sexual expression fosters moral intolerance. Sexual expression may be calculated to provoke feelings of male superiority over women, or conversely, female superiority over men. Literature about homosexuality and lesbianism advances views about particular alternative lifestyles. Indeed, the array of politically relevant viewpoints generated from sexual expression are so numerous one may wonder how individuals can dwell only on the possible harms created by this form of expression.

C. Sexual Expression as High Value Speech

The notion that sexual expression has high value, or is important speech, was given credibility by the Seventh Circuit Court of Appeals in *American Booksellers Association v. Hudnut.*[95] This case centered on an Indianapolis ordinance defining "pornography" as a practice that

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90. *Id.*

91. *Id.*

92. For an excellent discussion ranking speech to assess degrees of first amendment protection, see generally BONNICKSEN, CIVIL RIGHTS AND LIBERTIES (1982).

93. *See New Developments in Pornography Regulation*, *supra* note 88.

94. For one of the more comprehensive views supporting the argument that pornography creates discriminatory views in society, see Sunstein, *Pornography and the First Amendment*, DUKE L. J., 609, 609-19 (1986).

95. 771 F.2d. 323 (7th Cir. 1985).

discriminates against women.[96] More specifically, the ordinance prohibited the "graphic, sexually explicit subordination of women, whether in pictures or in words."[97] The ordinance prohibits these sexually explicit scenes without regard for the potential literary, artistic, political or scientific value of the work in question.[98]

Judge Easterbrook, writing for the circuit court, found the ordinance unconstitutional on several grounds. First, the court objected to the premise that speech content could be absolutely regulated without regard to the work's potential literary, artistic or political qualities.[99] Further, the ordinance made material depicting women in an approved manner, based on equality, absolutely lawful, but it made materials depicting women in a disapproved manner, based on submission, absolutely unlawful.[100] Judge Easterbrook reasoned that since sexual expression has such a powerful effect on peoples' emotions, the link between pornography and speech is further supported.[101] The contention that pornography may condition people to undesirable ends does not in itself justify a ban on the material.[102] Racial bigotry, anti-semitism, violence on television, reporters' biases, all of these forms of speech can negatively influence our culture.[103] However, bans on speech have not been traditionally acceptable merely because a potential for societal harm exists. Most, if not all, forms of communication have some sort of conditioning effect. Should our society ban these communications? Can our society selectively choose what sort of potentially harmful communication may or may not deserve constitutional protection? Can our government declare what is proper, what is truthful and prohibit communication that does not fit government's definition?

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96. Indianapolis Code § 16-3(q).

97. *Id.* The ordinance outlines a variety of situations generally depicting women in a degrading and/or humiliating fashion, including but not exclusively confined to presenting women in scenes where women are tortured, dismembered, dominated, mutilated or where they are portrayed as enjoying pain, being penetrated by objects and/or animals or being raped.

98. *Id.* The Indianapolis ordinance did not forbid obscenity, but pornography. In Miller v. California, 413 U.S. 15 (1973), the Court held that before sexual expression can lose its constitutional protection, it must be defined *obscene*. The *Miller* standard requires that the publication, taken as a whole, "must appeal to the prurient interest, must contain patently offensive depictions or descriptions of specified sexual conduct, and on the whole have no serious literary, artistic, political, or scientific value." *See also American Booksellers*, 771 F.2d at 324 (citing Brockett v. Spokane Arccades, Inc., 472 U.S. 491 (1985)). The Indianapolis ordinance attempted to deny first amendment protection of material not defined as obscene.

99. 771 F.2d. at 325.

100. *Id.*

101. *Id.* at 329.

102. *Id.*

103. *Id.* at 330.

These questions guided the circuit court to conclude that even potentially harmful speech has a place in the marketplace of ideas. Unpopular, even repulsive speech may have substantial merit in the marketplace of ideas. Pornography, even that which may be sexually explicit in projecting a disgusting idea, may still provide substantial utility to society.[104] As long as communication has some defined artistic, literary, political or social value, it has a place in the marketplace of ideas. Government policies that proscribe communication without first determining whether the banned material meets first amendment constitutional guidelines is an arbitrary and unacceptable proscription. Therefore, as it applied in this case, the Indianapolis ordinance was unconstitutional because it placed a blanket prohibition on communication containing undesirable characteristics without regard to the potential merit of the communication.[105]

While one cannot easily deny that sexual expression affects political viewpoints, protecting sexual expression can also be justified because it helps promote an individual's self expression and/or self fulfillment.[106] America's Victorian parameters of sexual morality can create difficulties for an individual's ability to express their innermost sexual desires. Having a diverse outlet for sexual expression that allows individuals to find others who think as they do fosters important political feelings.[107] Sexual expression should not be banished merely because it falls outside socially accepted norms. Justice Douglas addressed this problem in his dissenting opinion in *Ginzburg v. United States*.[108] He stated:

> Some of the tracts for which these publishers go to prison concern normal sex, some homosexuality, some the masochistic yearning that is probably present in everyone and dominant in some. . . . Why is it unlawful to cater to the needs of this group? . . . But we are not in the realm of criminal conduct, only ideas and tastes. . . . When the Court today speaks of "social value," does it mean a 'value' to the majority? Why is not a minority "value" cognizable? . . . If we were wise enough, we might know that communication may have greater therapeutical value than any sermon that those of the "normal" community can ever offer. But if the communication is of value to the masochistic

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104. *Id.*

105. *Id.*

106. The Supreme Court addressed the notion that speech deserves first amendment protection if it helps both those conveying ideas and those receiving ideas in First National Bank v. Bellotti, 435 U.S. 765, 783 (1978) and also in Police Department of Chicago v. Mosley, 408 U.S. 92, 96 (1972).

107. *See New Developments in Pornography Regulations*, *supra* note 88, at 52.

108. 383 U.S. 463, 489-90 (1966) (Douglas, J., dissenting).

> community or to others of the deviant community, how can it be said to be "utterly without redeeming social importance?" "Redeeming" to whom? "Importance" to whom?[109]

Self expression and personal fulfillment may also be enhanced by the free exchange of sexual expression because it can further the exploration of fantasy. As Lynn noted,[110] the Feminist Anti-Censorship Taskforce argued that depictions of ways of living and acting different than one's own reality can help one grasp the potentialities of human behavior. Fantasy imagery allows us to experience conditions we may not wish to experience in real life. This enlarged vision of human conduct can help individuals in decision-making on a wide range of social and ethical issues.[111]

Finally, distributing sexually expressive material may act as a safety valve on potentially aggressive behavior or provide an outlet for those who are realistically deprived of experiences that lead to sexual satisfaction. While evidence regarding the safety valve theory is inconclusive, one of the effects of viewing erotica is that it may reduce aggressive responses in people who are predisposed to aggression.[112] Fantasy exploration from sexual expression can also help individuals who are unable to fulfill their sexual needs any other way. The aged, shy, unattractive, or physically disabled may find sexually oriented literature the only feasible means available to satisfy their sexual urges.[113]

While there is little question that sexual expression can include repulsive and shocking depictions of sexuality, it is also true that sexual expression retains high expressive value for millions of people in a variety of different contexts. The preceding section is not so much a blanket defense to protect every form of sexual expression as it is a reminder that sexual expression can be highly valuable. If one accepts this proposition, it becomes difficult to also accept government interpretations of racketeering seizure clauses enabling them to seize all adult bookstore inventory on the mere probability that some of the inventory is obscene. The following section examines this problem as it relates to the recent Supreme Court decision of *Fort Wayne Books, Inc. v. Indiana.*[114]

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109. *Id.*

110. *See New Developments in Pornography Regulations*, *supra* note 88, at 98.

111. *Id.* (*quoting* Amicus Brief of the Feminist Anti-Censorship Taskforce at 29, American Booksellers Ass'n v. Hudnut, 771, F.2d 323 (7th Cir. 1985)).

112. *Id.* (*quoting* Amicus Brief of the Feminist Anti-Censorship Taskforce at 29, *Bookseller's Ass'n*, 771 F.2d 323).

113. *Id.* at 55.

114. 109 S. Ct. 916 (1989).

IV. Racketeering Property Seizure Clauses as a Form of Prior Restraint

A. Overview of Fort Wayne Books v. Indiana

Obscenity is traditionally prosecuted through criminal proceedings. As outlined in *Miller v. California*,[115] judges must first determine whether sexual expression is obscene before imposing a criminal sanction. Recently, however, states have begun to use racketeering and civil remedy statutes patterned after the federal racketeering law[116] to enable states to seize complete bookstore inventories without following the procedures outlined in *Miller*. For example, the Supreme Court faced a challenge to Indiana's Racketeer Influenced and Corrupt Organization[117] (RICO) and Civil Remedies for Racketeering Activity[118] (CRRA) in the companion cases of *Fort Wayne Books, Inc. v. Indiana*[119] and *Ronald Sappenfield v. Indiana*.[120]

In order to appreciate the decision in *Fort Wayne Books*, the interrelationship between Indiana's RICO and CRRA statutes must be understood. Indiana's RICO law defines, as a class C felony, anyone convicted of a pattern of racketeering activity.[121] It also defines racketeering activity as committing, attempting to commit or conspiring to commit or aiding and abetting a series of defined acts or conduct including obscenity.[122] A pattern of racketeering activity means engaging in at least two incidents of the proscribed behavior within a five year period with the first incident beginning after August 31, 1980.[123] An individual convicted of two predicate offenses defined in the RICO statutes may be subject to criminal prosecution under the RICO provisions as well as civil action under the CRRA. Provisions within the CRRA statute allow a prosecuting attorney to initiate a forfeiture action in a circuit

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115. 413 U.S. 15 (1973).

116. The Racketeering Influenced and Corrupt Organizations Act defines racketeering activity to include any act or threat involving murder, kidnapping, gambling, arson, robbery, bribery, extortion, and dealing in obscene matter. . . . 18 U.S.C. § 1961 (1970).

117. Ind. Code §§ 35-45-6-1 to -2 (1980).

118. Ind. Code §§ 34-4-30.5-1 to -6 (1980).

119. 109 S. Ct. 916 (1989).

120. *Id.*

121. Ind. Code § 35-45-6-2(3) (1980).

122. Indiana's racketeering statutes include murder, kidnapping, child exploitation, arson, burglary, receiving stolen property, forgery, fraud, bribery, official misconduct, conflict of interest, perjury, tampering, intimidation, promoting prostitution, promoting gambling, dealing in controlled substances and as amended in 1984, obscenity as prohibited activities. Ind. Code § 35-45-6-1(2) (1980).

123. *Id.*

or superior court of evidence allegedly tied to a racketeering violation. Upon a showing by a preponderance of the evidence that the property in question was used or intended for use, derived from, or realized through racketeering activity, the court may order the property seized and forfeited to the state.[124] It is important to note that the CRRA does not require the state to set a trial date on the CRRA complaint. Therefore, the seizure could last indefinitely without a final judicial determination on the merits of the complaint.

In *Fort Wayne Books*, the trial court agreed with the district attorney that there was probable cause to believe that Fort Wayne Books was violating state RICO law, directed the immediate seizure of the real estate, publications, and personal property, and ordered the county sheriff to padlock the stores.[125] The trial court based its decision on an affidavit executed by a local police officer, which recounted thirty-nine prior criminal convictions of Fort Wayne Books for selling obscene books and films at the locations where the materials were being seized.[126]

After the seizure, Fort Wayne Books petitioned to vacate the *ex parte* seizure order, but was denied relief.[127] The trial court, however, certified the constitutional issues to the Indiana Court of Appeals, which held the relevant RICO/CRRA provisions violated the United States Constitution.[128] The Indiana Supreme Court reversed the court of appeals and held that both the RICO and CRRA statutes constitutional.[129]

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124. IND. CODE § 34-4-30.5-3(a) of the CRRA states:

> The prosecuting attorney in a county in which any of the property is located, may bring an action for the forfeiture of any property used in the course of, intended for use in the course of, derived from, or realized through, conduct in violation of I.C. 35-45-6-2. An action for forfeiture may be brought in any circuit or superior court in a county in which any of the property is located. Upon a showing by a preponderance of the evidence that the property in question was used in the course of, intended for use in the course of, derived from, or realized through, conduct in violation of I.C. 35-45-6-2, the court shall order the property forfeited to the state, and shall specify the manner of disposition of the property including the manner of disposition if the property is not transferable for value. The court shall order forfeitures and dispositions under this section with due provisions for the rights of innocent persons.

IND. CODE § 34-4-30.5-3(b) states:

> When an action is filed under subsection (a), the prosecutor may move for an order to have property subject to forfeiture seized by a law enforcement agency. The judge shall issue such an order upon a showing of probable cause to believe that a violation of I.C. 35-45-6-2 involving the property in question has occurred.

125. *Fort Wayne Books*, 109 S. Ct. at 921.
126. *Id.*
127. *Id.*
128. *Id.*
129. *Id.* at 921-22.

B. Applying Indiana's CRRA Forfeiture Provision on Expressive Material Creates an Impermissible Prior Restraint

While the *Fort Wayne Books* Court was confronted with a variety of issues, two constitutional issues which were raised in the case will be discussed here. First, the Court addressed whether including the substantive offense of obscenity as a predicate offense in Indiana's RICO law would render the entire statute unconstitutionally vague.[130] Second, the Court considered whether Indiana's CRRA pretrial seizure clause, as applied to sexual expression in this case, created an impermissible prior restraint.[131] The Court held that including obscenity as a predicate offense in RICO statutes did not make the statute unconstitutionally vague as applied to obscenity predicate offenses.[132] The Court did find, however, that the CRRA pretrial seizure clause, as applied to sexual expression, constituted an impermissible prior restraint.[133]

Justice White delivered the majority opinion which, depending on the particular issue addressed, was joined by an interesting mix of justices. With regard to the Court ruling accepting obscenity as a predicate offense in a RICO prosecution, Justice White was joined by Chief Justice Rehnquist and Justices Blackmun, Scalia, and Kennedy. With regard to holding that Indiana's CRRA pretrial seizure provision created an unconstitutional prior restraint, Justice White was joined by Chief Justice Rehnquist and Justices Brennan, Blackmun, O'Connor, Scalia and Kennedy, who were joined in concurrence by Justice Marshall.

In determining whether the CRRA seizure clause was an impermissible prior restraint, the Court first addressed whether obscenity could be constitutionally attached to RICO statutes.[134] If the Court ruled that obscenity could not be included as a predicate offense in RICO statutes, that holding would serve as a sufficient condition to preclude the use of the CRRA pretrial seizure clause on sexual expression.

In upholding the inclusion of obscenity as a valid predicate offense in RICO statutes, Justice White rejected the petitioner's argument that the 'inherent vagueness' of the requirements established by the Court in *Miller v. California*[135] require a finding that the RICO statute, prosecution for which could be based on predicated acts of obscenity, was unconstitutional.[136] The Court noted that the RICO laws encompassed

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130. *Id.* at 924-27.
131. *Id.* at 925-30.
132. *Id.* at 924-25.
133. *Id.* at 927-30.
134. *Id.* at 924-27.
135. 413 U.S. 15 (1973).
136. 109 S.Ct. at 924-25.

Indiana obscenity law, which was in conformance with the requirements of *Miller*.[137] Because the obscenity law was not unconstitutionally vague, the RICO provision incorporating the obscenity laws were not vague.

The Court did reject the constitutionality of the CRRA property seizure clause as it applied to sexually expressive material.[138] The Court noted several precedents[139] condemning seizures with no pretrial due process guarantees and indicated that "pretrial seizures of expressive materials could only be undertaken pursuant to a procedure designed to focus searchingly on the question of obscenity."[140] It is important to note that the Court distinguished between taking a single copy of expressive material for evidentiary purposes, which is allowed,[141] from the type of massive seizure authorized by Indiana's CRRA statute.

The Court also noted that while the fourth amendment permits the government to seize "any and all contraband, instrumentalities, and evidence of crimes upon probable cause,"[142] this rule is not applicable to expressive materials[143] because expressive material, unlike non-expressive material, is braced with first amendment protection.[144]

In *Fort Wayne Books*, the Indiana Supreme Court justified the seizure with the argument that the books merely represent assets used and acquired through racketeering activity.[145] The Indiana Supreme Court believed it was irrelevant to consider whether the seized material contained expressive value protected by the first amendment.[146] It argued the CRRA forfeiture remedy was intended to disgorge assets from racketeering activity and not necessarily restrain the distribution of constitutionally protected speech.[147] The United States Supreme Court dismissed the analysis of the Indiana Supreme Court as a simplistic distinction to bypass the strict procedural requirements intended to safeguard expression from impermissible prior restraints. While the Supreme Court agreed that RICO statutes could define obscenity as a category of racketeering activity,[148] and that bookstore inventories could be forfeitable like other

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137. *Id.*

138. *Id.* at 927-30.

139. *Id.* at 927 (citing Marcus v. Search Warrant, 367 U.S. 717 (1961); A Quantity of Books v. Kansas, 378 U.S. 205 (1964); Lee Art, Inc. v. Virginia, 392 U.S. 636 (1968); Heller v. New York, 413 U.S. 483 (1973), New York v. P.J. Video, Inc., 475 U.S. 868 (1986); Lo-Ji Sales, Inc. v. New York, 442 U.S. 319 (1979)).

140. *Fort Wayne Books*, 109 S. Ct. at 927.

141. Heller v. New York, 413 U.S. at 492.

142. Lo-Ji Sales, Inc. v. New York, 442 U.S. at 326.

143. *Id.*

144. *See* Maryland v. Macon, 472 U.S. 463, 470 (1985).

145. 4447 Corp. v. Goldsmith, 504 N.E.2d 559, 565 (Ind. 1987).

146. 109 S. Ct. at 928.

147. *Id.*

148. 109 S. Ct. at 925.

property,[149] it rejected the conclusion of the state court that expressive property lacked first amendment protection against the CRRA forfeiture provision.[150] The Court noted:

> Here there was not—and has not been—any determination that the seized items were 'obscene' or that a RICO violation *has occurred*. True, the predicate crimes on which the seizure order was based had been adjudicated and are unchallenged. But the petition for seizure and the hearing thereon were aimed at establishing no more than *probable cause to believe* that a RICO violation had occurred, and the order for seizure recited no more than probable cause in that respect. As noted above, our cases firmly hold that mere probable cause to believe a legal violation has transpired is not adequate to remove books or films from circulation. The elements of a RICO violation other than the predicate crimes remain to be established . . . e.g, whether the obscenity violations . . . established a pattern of racketeering activity, and whether the assets seized were forfeitable under the State's CRRA statute. Therefore, the pretrial seizure at issue here was improper. . . .
>
> At least where the RICO violation claimed is a pattern of racketeering that can be established only by rebutting the presumption that expressive materials are protected by the First Amendment, that presumption is not rebutted until the claimed justification for seizing books or other publications is properly established in an adversary proceeding.[151]

On the surface, the Supreme Court recognized that sexual expression possesses sufficient expressive value to deny a blanket seizure of these materials. On one hand, the Court recognized there may have been probable cause to believe a pattern of racketeering activity existed because the accused had been previously convicted of at least two predicate offenses as required by the RICO statute. However, the Court rejected the notion that just because an individual has had prior obscenity convictions, and may possibly have obscene material contained within his business inventory, that all of the expressive material is obscene. Due process requires that a judicial tribunal first determine which material is obscene and then separate it from other sexual expression. Omitting this safeguard, the ensuing seizure becomes overly broad and therefore an impermissible prior restraint. Yet by construing the *Fort Wayne Books*

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149. *Id.* at 926.
150. *Id.*
151. *Id.* at 929-30.

decision narrowly, states may have tremendous powers to utilize RICO statutes in a way that can both suppress and oppress sexual expression. The following section addresses this possible application of RICO statutes.

C. Fort Wayne's Effect on Free Speech: The Dissenting View

This Case Note stresses the view that government may not seize sexual expression before a judicial tribunal determines that the material is obscene. This thesis is predicated on the notion that sexual expression should remain braced with strict procedural safeguards to afford first amendment protection. While the Court embraced this thesis to strike down the applicability of the forfeiture clause of the CCRA provisions, the Court left unresolved issues that could allow the RICO/CRRA relationship to develop into a powerful tool that states could use to fight unpopular forms of expressive material. The majority agreed that civil forfeiture provisions still applied to non-expressive property. Therefore, the forfeiture provisions could still become a potent tool to deny first amendment protection to sexual expression. Justices Stevens, joined by Justices Brennan and Marshall, addressed this problem in the dissent in *Fort Wayne Books*.[152]

The dissent reasoned that applying RICO statutes to sexual expression misplaces the purpose of RICO statutes and creates a dangerous precedent.[153] RICO statutes are intended to curtail corrupt business practices. This view is supported from the fact that violators of the Indiana RICO statute are class C felons, guilty of "corrupt business practice."[154] However, there is a fundamental difference between curtailing corrupt business practices and curtailing immoral thoughts.[155]

While one can argue that a relationship exists between corrupt business practices and adult sexual expression retailers, it is improper

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152. *Id.* at 931-39.

153. *Id.* at 932-34.

154. IND. CODE § 35-45-6-2(a)(3) (1982).

155. The dissent takes note of Professor Henkin's argument that obscenity laws are rooted in this country's religious antecedents and of governmental responsibility for communal and individual decency and morality. Henkin argued that:

> Communities believe, and act on the belief, that obscenity is immoral, is wrong for the individual, and has no place in a decent society. They believe, too, that adults as well as children are corruptible in morals and character, and that obscenity is a source of corruption that should be eliminated. Obscenity is not suppressed primarily for the protection of others. Much of it is suppressed for the purity of the community and for the salvation and welfare of the consumer. Obscenity, at bottom, is not crime.

Henkin, *Morals and the Constitution: The Sin of Obscenity*, 63 COLUM. L. REV. 391 (1963).

to assume this is the case. This is implied by listing obscenity as a predicate offense in RICO statutes. Justice Stevens argued:

> [T]here is a difference of constitutional dimension between an enterprise that is engaged in the business of selling and exhibiting books, magazines, and videotapes and one that is engaged in another commercial activity, lawful or unlawful. A bookstore receiving revenue from sales of obscene books is not the same as a hardware store or pizza parlor funded by loan sharking proceeds. The presumptive First Amendment protection accorded the former does not apply either to the predicate offense or to the business use in the latter. . . . Prosecutors in such cases desire only to purge the organized-crime taint; they have no interest in deterring the sale of pizzas or hardware. Sexually explicit books and movies, however, are commodities the state does want to exterminate. The RICO/CRRA scheme promotes such extermination through elimination of the very establishments where sexually explicit speech is disseminated.[156]

In essence, the dissent argued that by accepting the constitutionality of obscenity as a predicate offense in RICO statutes, the Court clouds the rationale of racketeering statutes and gives the state two additional methods to fight morality rather than corrupt business practices. In other words, the government gains at least two additional and potentially more powerful tools beyond that of traditional obscenity statutes to fight sexual expression.[157]

First, persons convicted of at least two prior obscenity violations could face much stiffer penalties if prosecuted under a RICO statute.[158] For example, if the petitioners in *Sappenfield* were convicted of all six misdemeanor obscenity offenses, they would face a maximum of six years in prison and a $30,000 fine. However, if they were convicted of two RICO offenses, both class C felonies, they would face up to 10 years in person and $20,000 in fines.[159] Therefore, attaching obscenity violations to RICO statutes imposes, as argued by the petitioners in *Sappenfield*, sanctions that are so draconian, they improperly chill first amendment protection.[160]

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156. 109 S. Ct. at 939.

157. In Indiana, a RICO statute conviction is a class C felony while conviction of an obscenity statute is a misdemeanor. More severe penalties associated with a racketeering conviction can act as greater deterrent than being convicted of an obscenity violation. *See Fort Wayne Books*, 109 S. Ct. at 918.

158. *See* IND. CODE §§ 35-45-6-1 to -2 (1980).

159. 109 S. Ct. at 925.

160. *Id.*

The majority in *Sappenfield* recognized the RICO scheme may make some cautious booksellers practice self-censorship and remove from their shelves materials protected by the first amendment.[161] However, the *Sappenfield* majority rejected the petitioner's argument and instead concluded that because deterrence of the sale of obscenity has traditionally been a goal of anti-obscenity statutes,[162] the mere assertion of some possible self-censorship resulting from a statute was not enough to render the statute unconstitutional.[163] Therefore, the Court accepted the rationale that applying the harsher penalties contained in RICO statutes to book store proprietors was not unconstitutional because of its possible extra deterrent affect.[164]

Second, and more directly, Indiana's RICO/CRRA scheme gives government a powerful tool to seize an enterprise's non-expressive property, effectively crippling an enterprise's ability to conduct business. The majority opinion erased the distinction between an obscenity violation and a corrupt business practice. However, one should not assume that a person who violates an obscenity statute automatically does so in a way that fits the definition of a corrupt business practice. This assumption, the dissent argued, is why obscenity should not be included as a predicate offense.[165]

By accepting the juxtaposition of obscenity and RICO statutes, the majority potentially opens sexual expression to the shims of a community's sexual mores. Even if Indiana chooses not to conform its CRRA forfeiture provision to the procedural requirement of the fourth amendment, the state would only have to show that an enterprise had two prior obscenity convictions before it could use the CRRA procedures to dissolve the enterprise, forfeit its non-expressive property and enjoin the defendant from engaging in the same type of business in the future.[166]

This possibility effectively allows government to circumvent the majority's position that the CRRA forfeiture provision conform to proper due process requirements when applied to expressive material by effectively letting the adult bookstore owner have his expressive material yet seize all non-expressive property used to sell the material.[167] Further, the state could prohibit the owner from engaging in the same business in

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161. *Id.*
162. *Id.* at 925-26.
163. *Id.*
164. *Id.*
165. *Id.* at 930-31.
166. *Id.* at 931.
167. The majority concluded that the CRRA forfeiture provision violated due process only after it excluded from its holding pretrial seizures of non-expressive material. *Id.* at 929.

the future.[168] Therefore, the dissent argued the majority is creating a scheme that gives the state drastic measures to curtail undesirable activities.[169] Because the holding in *Fort Wayne Books* was not extended to non-expressive material in obscenity based racketeering prosecutions, the state could have an effective mechanism to combat its view of immorality, even if it is not connected with corrupt business practices. Justice Stevens recognized this inherent danger:

> Whatever harm society incurs from the sale of a few obscene magazines to consenting adults is indistinguishable from the harm caused by the distribution of a great volume of pornographic material that is protected by the First Amendment. Elimination of a few obscene volumes or videotapes from an adult bookstore's shelves thus scarcely serves the State's purpose of controlling public morality.[170]

In sum, the dissenters chided the majority for juxtaposing obscenity violations with RICO prosecutions. The scheme dilutes the clarity of RICO intent to a statute that vastly increases the power of the state to control sexual expression. Justice Stevens reasoned that:

> Reference to a "pattern" of at least two violations only compounds the intractable vagueness of the obscenity concept itself. The Court's contrary view rests on a construction of the RICO statute that requires nothing more than proof that defendant sold or exhibited to a willing reader two obscene magazines-or perhaps just two copies of one such magazine. I would find the statute unconstitutional even without the special threat to First Amendment interests posed by the CRRA remedies.[171]

Finally, recognizing the suppressive and oppressive nature of this holding, the dissent, relying on both *Near v. Minnesota*[172] and quoting *Stanley v. Georgia*,[173] stated:

> "It is better to leave a few . . . noxious branches to their luxuriant growth, than, by pruning them away, to injure the vigour of those yielding the proper fruits," for the "right to receive information and ideas, regardless of their social worth, is fundamental to our free society."[174]

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168. *Id.* at 937.
169. *Id.*
170. *Id.*
171. *Id.* at 937.
172. 283 U.S. 697 at 718 (1931) (Hughes, C.J. quoting 4 WRITINGS OF JAMES MADISON 544 (1965).
173. 394 U.S. 557, 564 (1969) (citation omitted).
174. *Fort Wayne Books*, 109 S. Ct. at 939.

V. Conclusion

Fort Wayne Books clearly requires a judicial determination that materials are obscene before a state invokes a CRRA forfeiture provision. Yet, by not extending the prohibition to non-expressive property used to disseminate expressive property, the possibility exists that RICO/CRRA applications against adult expressive enterprises may become more common in the future.

The increasingly solid conservative coalition developing on the Supreme Court will likely be strengthened during the Bush administration. It is likely that William Brennan and Thurgood Marshall, the two most liberal justices on the Court regarding free speech, will soon retire. It is virtually certain that their successors will reflect, at the very least, a more moderate position on free speech and criminal procedure.

As the Supreme Court evolves an increasingly conservative focus, RICO/CRRA forfeiture applications on non-expressive property may well be accepted, even if the forfeiture effectively closes the business. The mere threat of that drastic action may have significant deterrent effects. One aspect of the majority opinion supports these possibilities. The majority was not sympathetic that RICO applications may have an additional deterrent effect on those who might sell obscene materials.[175] The majority iterated that:

> [D]eterrence of the sale of obscene materials is a legitimate end of state anti-obscenity laws, and our cases have long recognized the practical reality that "any form of criminal obscenity statute applicable to a bookseller will induce some tendency to self-censorship and have some inhibitory effect on the dissemination of material not obscene."[176]

Fort Wayne Books gives mixed signals regarding the commitment of the Supreme Court to protect sexual expression. One may construe the majority's distinction between expressive and non-expressive property as merely an obvious division necessary to address the speech implications inherent in the CRRA forfeiture clause. On one hand, it seems logical to continue to apply CRRA forfeiture provisions to non-expressive materials. On the other hand, using RICO and CRRA statutes to effectively seize non-expressive property can have a total chilling effect on establishments disseminating sexual expression that in the past have been convicted of at least two obscenity violations.

Whether government will utilize RICO and CRRA statutes in this fashion and how the Supreme Court will judge these actions is still open

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175. *Id.* at 926.
176. *Id.* at 926.

to speculation. Yet it is vital that society recognize the important role speech plays in a democratic polity. Especially when speech has the potential to affect how people develop ideas related but not necessarily limited to science, art, politics, literature and human relationships, it should be perceived as having high value and accorded serious protection. For the moment, the Supreme Court has accorded sexual expression a high enough value that it survived Indiana's recent effort to seize it absent judicial determinations of which materials were obscene. However, the decision in *Fort Wayne Books* is narrow and in no way marks the end of the obscenity controversy. Society must recognize that, even if unpleasant at times, sexual expression has value and must be protected. If not, our society will have taken a step closer toward intellectual intolerance where non-conformist ideas are held captive by majoritarian interests.

Judge Hill's Rule

WINTON D. WOODS*

Back in the 1950's I lived in Bloomington, Indiana which was then a town of 10,000 people with a university of the same size. Bloomington was the county seat and the county judge was a man named Nat U. Hill. Judge Hill had a rule that was followed in his court, and that rule required that in argument or briefing in the Monroe County Circuit Court no lawyer could cite any case or other authority that could not be found in the county law library located in the courthouse. The rule had a certain pragmatic value. Indeed, I understand that other county courts in other parts of Indiana and many parts of the United States for years followed a similar unwritten practice. In the case of the Monroe County circuit court, however, there was a certain tension. The Indiana University law library, at that time one of the most highly regarded law libraries in the midwest, was located less than a mile down the street from the Monroe County courthouse. Judge Hill didn't have a law clerk, however, and he could not be expected to run out to the University at every whipstitch in order to check on some exotic citation that a clever lawyer had come up with. And, as far as the country lawyers from the rest of the county were concerned, appearance at the University law library would have been an affront to their dignity.

I am told that on occasion Judge Hill would vary his rule,[1] but by and large all of the matters that came before the Monroe County court were decided on the basis of the Indiana Reports, the Northeastern Reporter, Burns Indiana Statutes, Corpus Juris and an assorted few other books that I cannot now remember.

Twenty five years ago I walked the mile from the town square out to the University law school and enrolled. While I was there I learned what an anathema Judge Hill's Rule was. For there in the myriad books of the law library were answers to what had seemed simple questions that transcended the Burns Indiana Statutes and the Northeastern Reports. I came to know even Corpus Juris Secundum as nothing more than a

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1. Indeed I remember one particularly stunning argument where the famous civil rights lawyer Leonard Boudin came down from New York to argue a motion to suppress evidence in the prosecution of the Young Socialist Alliance in the early 1960's. Leonard Boudin was, as expected, brilliant. What he did not expect, but soon came to know, was that the country judge before whom he was appearing had a pretty fair grasp of constitutional law himself. It was quite a show and one that left an indelible impression upon this then young lawyer.

research tool and not the source of the answers themselves. Answers were to be found through a process of legal reasoning that involved research and careful analysis of the existing case law. Law review articles that had plowed similar ground were to be consulted, as well as treatises written by eminent authorities who had spent many years thinking about the problem at hand. Once one had completed this careful research the conclusions were to be written down and drafted and redrafted and finally crafted into a written document that in itself was a free standing piece of legal art. Most of my colleagues at the University law school did not enjoy that process nearly as much as I did. Where they found pedantry I found poetry. Most of them went on to become highly successful lawyers. I became a professor.

Over the last quarter century I have had the rare opportunity to consort with some of the finest legal minds in the country. I have taught at a first rate university law school and I have practiced in front of some of the outstanding courts in the United States. I have worked with eminent lawyers trained at the finest law schools in the land. I have been challenged by students and colleagues to explore the minutia of the law and I believe I have been relatively competent in both the classroom and the courtroom.

In spite of all of that I have come in recent years to appreciate the beauty of Judge Hill's Rule. Computerized research and word processing coupled with desktop printing technologies have revolutionized the practice of law. Our access to information is orders of magnitude greater than it was only a short time ago. We have almost instantaneously available to us every decision of every court in the land and the mechanical ability to turn a brief into a book. I am not at all sure that those things have improved the quality or the administration of justice.

From the time of Blackstone until the end of the 1950's the practice of law was relatively simple and oriented toward the resolution of disputes between real clients. For example, from its beginning in 1877 until 1957 the Federal Reporter system occupies 84 feet of shelf space. From 1957 until today the Federal Reporter has more than doubled to 195 feet of girth, and the other elements of the National Reporter system have grown in similar ways. The number of pages published in the law reviews has increased dramatically, and there are horn books, practice books, treatise books, and all manner of other books dealing with every conceivable aspect of law. Most of them are instantly accessible at the touch of a button. In short, we now know more than we ever wanted to about the law, and we know it with insidious detail. For each case in point there is a counterpoint. For each permutation of a holding we can find a distinction. There is no apparent end.

These changes in the information base upon which law practice is predicated have had a dramatic impact on the way disputes are decided

in may courtrooms. A substantial percentage of modern litigation involves a highly complex processing of all of this information and a sophisticated form of argumentation based upon that information processing. The judging of such litigation involves in substantial part the management of the information processing.[2]

In Judge Hill's courtroom, however, the focus was not on processing disputes, but upon resolving them. The law was thought to be comparatively simple and whatever facts developed in that courtroom context dictated the outcome of the case. The poor lawyer from the outlying part of the county had as good a shot as the wealthy lawyer who resided in Bloomington. Judge Hill's Rule made the practice fair and simple in a fundamental kind of way.

I am not sure that the quality of justice that emerged from Judge Hill's courtroom was any less than the quality of justice that emerges from our information processing courtrooms of today. Indeed, as an information processing lawyer, I am relatively sure that the opposite is true. Without doubt the lawyers who practiced in Judge Hill's courtroom gave up something. They were allowed by Judge Hill's Rule to make only a limited, but credible, case. Their clients, however, gained a great deal. They had access to lawyers at a reasonable price and their disputes got resolved and put behind them. They went on with their lives without having sold the farm to pay their legal fees. They had access to justice, not just the courts.

Much modern dispute resolution theory is premised on a recognition that the quality of justice that emerged from Judge Hill's courtroom wasn't so bad after all. At least I'm sure that those who refer to arbitration, mediation, mini trials, and the like as "second class justice" never saw Judge Hill's courtroom. There is nothing second class about the speedy, inexpensive and fair resolution of conflict. Judge Hill taught us that. We just forgot the lesson.

Judge Hill's courtroom embodied the basic policies underlying the Federal Rules of Civil Procedure far better than most of our information processing courtrooms of today. The overwhelming characteristic of Judge Hill's courtroom was "the just, speedy and inexpensive determination of every action" described in Rule 1.[3] The primary reason for the attainment of those lofty goals was Judge Hill's Rule. By limiting the scope and amount of information to be processed, Judge Hill's Rule allowed reason and a sense of justice to play a primary role in the

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2. A kind of academic subspecialty is beginning to emerge in which particularly skilled members of law faculties have undertaken the management of enormously complex judicial matters as special masters. *See, e.g.*, McGovern, *Toward a Functional Approach for Managing Complex Litigation*, 53 U. CHI. L. REV. 440 (1986)

3. FED. R. CIV. P. 1.

resolution of disputes. By the same token, the rule reduced the amount of time spent in the courtroom as well as the office, thereby greatly reducing the expense of dispute resolution.

The modern mini-trial concept is founded upon a recognition of many of the same principles that obtained in Judge Hill's courtroom. Experience with the mini-trial has taught us that complex cases can be boiled down to their essentials and tried with efficiency and dispatch if we impose an absolute limit upon pretrial proceedings and trial time. The mini-trial has also taught us that information processing lawyers can live with truncated discovery and the absence of a jury.[4]

Anyone who has endured a modern civil trial in a typical jury case must be struck by the inefficiency and waste of time that has come to be an accepted part of the process. Anyone who has participated in the pretrial aspects of a civil case is aware of the inefficiencies that abound there. One of the hallmarks of modern pretrial litigation is the fact that it is by and large managed by the lawyers who are processing the dispute without reference to any outside authority. In the ideal world, the lawyers involved in that process have a high sense of professionalism and a profound dedication to the ideals expressed in Rule 1. All too often the reality is that the process is characterized by a lack of cooperation and unconscionable delay. Indeed, one of the most remarked about characteristics of modern litigation is the degree of sloppiness and dishonor that has infected the process. Frivolous and dilatory objections to discovery have become commonplace.[5] Misrepresentations regarding scheduling conflicts and the like are probably far more common than we can imagine. Frivilous legal argumentation is accepted, and our bloated appellate systems show only the tip of the iceberg.[6]

During the last decade we have become preoccupied with a system that determines the reasonableness of a fee by reference to the number of hours the attorney puts in the case. As a result we have seen the number of hours invested in litigation expand enormously. Indeed, from the perspective of the law school one of the most remarkable indicators of a system out of control is the assiduous seeking of newly minted litigators who are capable of billing 2500, or even 3000, hours during their introductory year by playing the information processing game. We have come to accept all of these things and have closed our eyes to a

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4. The mini-trial is discussed in more detail in Woods, *The Mini Trial, Arizona Attorney*, Nov. 1988, p. 25 and in a great deal more detail in Green, *Recent Developments in Alternative Forms of Dispute Resolution*, 100 F.R.D. 512 (1983).

5. *See, e.g.*, Herbert v. Laudo, 441 U.S. 113, 179 (1979); Brazil, *Civil Discovery: How Bad are the Problems?* 67 A.B.A.J. 450 (1981).

6. *See*, Hellman, *Courting Disaster* (Book Review) 39 STAN. L. REV. 297 (1986) (reviewing R. POSNER, THE FEDERAL COURTS: CRISIS AND REFORM).

system that is approaching self-destruction. We have closed the doors of the civil justice system to the ordinary litigant in our unthinking demand to give each case all the process that is due. In so doing we have debased the currency of our profession and find ourselves despised by our former clients most of whom say they will never seek a lawyer's "help" again.[7]

I have another vision of the world, however. It is a vision that I learned in Judge Hill's courtroom before I went to law school and learned how to be an information processing lawyer. I see a modern version of Judge Hill's Rule that builds upon our experience with the mini-trial but applies across the board to disputes where the amount of money actually at stake cannot possibly justify an information processing system of dispute resolution. I see a world where lawyers try lawsuits in the old fashioned way, using their skills to illuminate dark corners of a dispute and fashion a special justice for the individual case. I wonder if the Republic would fail if we sent every case under $100,000 to a modern version of Judge Hill's courtroom where we severely limited discovery, motion practice, time for presentation of the case and appeal. What would happen if we put lawyers back in the courtroom and took information processing out? Would the quality of our existence be severely diminished by the prospect of trying the modern civil case without the bells and whistles of modern litigation? More importantly, would the quality of justice be strained by the speedy and inexpensive resolution of ordinary disputes?[8] I would not replace the courts which resolve large and difficult disputes. We must have courts that can handle the WPPS', the Texaco's, the Bhopals and the Manvilles. We must have courts that can deal with the special and complex problems that arise in the interface between the Constitution and the society. But those cases ought to be the special cases and the procedures adapted to their resolution peculiar to the nature of the problem to be solved.

Judge Hill's Rule was designed to keep matters simple and efficient. He understood that the marginal benefit of "total law" was, like total war, slight. Indeed, implicit in his rule was the notion that the quantity of law was in may cases inversely proportional to the quality of justice. We don't put people into intensive care for a common cold though some marginal benefit might accrue from such action. Total law might bring similar benefits though there comes a point, to borrow an observation from Mark Twain, where "the work of many antiquitarians

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7. Post, *On the Popular Image of Lawyers: Reflections in a Dark Glass*, 75 CALIF. L. REV. 379 (1987).

8. *See, e.g.*, Greene, *"Try It, Settle It or Dismiss It,"* FORBES, May 30, 1988, p. 266.

has thrown much darkness on the subject and, if they continue, we shall soon know nothing at all."[9] Judge Hill was skeptical about the benefit of total law and so am I. Total war may be justified by high principle and human rights, and total adjudication should be limited to similar matters of great import. It is one thing to have a full scale jury trial with all of its modern entanglements when the issues are important matters of deep concern to the litigants. It is quite a different matter to start up the engine of litigation when the problems are mundane and predictable. Yet every day in the courtrooms of America we see such trials over bent fenders and burned garages, minor slips and simple falls, that might be avoided by some equivalent of Judge Hill's Rule. A few of the possibilities follow.

Computer technology may provide one avenue for changing the way we litigate recurring cases. By building a large enough database we are already able to predict with increasingly high levels of precision the range of possible outcomes.[10] Once we are comfortable with the predictive capacity of such programs it is a small step to use that capability to increase the efficiency of the system. Let us assume that the program produces a prediction that a jury would likely award between $25,000 and $35,000 in a particular case with 90% certainty. If we are willing to say to the plaintiff that if your recovery is less than $30,000 you must pay all of the defendant's expenses including attorney's fees and if your recovery is less then $35,000 you may not recover your own costs of suit, the effect upon settlement is self-evident. Other incentive changes can be implemented such as limitation of attorney's fees beyond those for simple processing of the claim to a percentage of the amount recovered in excess of the amount that would have been awarded pursuant to the program.[11] Thus we might say that even if the plaintiff recovered in excess of $35,000 that the attorney's fees would be limited to a percentage of the excess recovery. The percentage of course would likely be higher than an ordinary contingent fee, but the imposition of such a rule would recognize the reality that it is the lawyer who has superior knowledge about this particular process and would put the burden where it belongs.

Such proposals will bring forth the wrath of the militants who view total adjudication as a fundamental right even when the issue is a bent

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9. The paraphrase is from memory. My apologies to Mr. Clemens.

10. At the University of Arizona Professor William Boyd and I are attempting to develop appropriate procedures for the development of such databases with the help of Larry Boyd a quantitative research methodologist.

11. Experience with this kind of a limitation has been less than satisfactory. Knopf, *"It's Indefensible to Deny Veterans Legal Counsel in Hearing Before the VA,"* L.A. Times, Metro, Pt. 2, p. 7, col. 1 (Op-Ed). *See also* Senate Bill 2292 discussed in BNA, Daily Report for Executives, April 26, 1988.

fender. "So what if we spend $10,000 in fees and costs to recover $5000 at the margin," they will say, "matters of principle are beyond value." Judge Hill would have sent those folks up the road to Chicago where total adjudication was an emerging artform.

Judges in civil law countries already have a rough version of my computer based vision. A recent article describes the so-called "Frankfurt List" which prescribes a series of percentage of cost recoveries for the various effronteries that occur to vacation travelers.[12] Thus if an unhappy German camper complains about the condition of his hotel room or bad food he is entitled to receive a damage award calculated on a percentage of the price he paid for his trip. Other "lists" deal with other problems that are brought before the civil courts. The "list" serves an important economizing function and reduces disputation. In small cases the list undoubtedly provides recompense in circumstances in which the cost of recovery under common law models would not allow any recovery at all. Small medical malpractice cases are an excellent example.[13] Where the malpractice injury is unlikely to produce a recovery in excess of $100,000 it is difficult to find a competent lawyer who will take the case. From the lawyer's point of view, such cases are so expensive to prepare and try that projected costs may equal or exceed the potential recovery. Such cases are also very hard to settle since the lawyers for the defendants are aware of the plaintiff's predicament.

The presence of a "list" would provide recovery at a low cost. Such lists actually exist. The Social Security Administration uses a list to calculate disability benefits.[14] We have used a "list" for years with Workers Compensation. Some "no fault" plans use lists. Child support "guidelines" have also become common. The airlines pay negotiated, but structured, benefits for so-called "denied boarding" compensation. The American Society of Composers and Producers have a copyright infringement "list."

In all of the above cases courts, legislators, business persons and regulators have made the judgment that the marginal benefit of total adjudication is less than benefit of certain and simple compensation for wrongs. The systems they have set up comprise an alternative model of dispute resolution that is not unlike Judge Hill's Rule. In each case a simple economic analysis produces a common sense answer that maximizes the values implicit in any system of dispute resolution.

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12. Cary, *What All Germans Take on Their Vacation: Snapshots, Sunscreen—Their Lawyer*, Wall Street Journal, February 9, 1989, at B1.

13. The problem is not limited to malpractice cases however. *See* The Dog Case, Litigation, No. 3, Spring 1984.

14. *See* DOBBS, TORTS AND COMPENSATION, p. 798, n.3-4; 20 C.F.R. 404, Appendix 1 to Subpart P (1989).

We are in danger of losing the judicial system that provides us with protection of our rights and compensates us for our losses. We have created that danger by forgetting that simplicity can be a virtue and that common sense is not nonsense. That was Judge Hill's belief and it is mine.

The Life of Riley[1]: Complete First Amendment Protection Versus Deferential Commercial Speech Standards for Professional Fundraising Solicitors

I. Introduction

In 1986, contributions to charitable organizations totaled an estimated 87.22 billion dollars.[2] The amount of philanthropic donations given to various health, social service, cultural, and civic recipients each year has steadily increased.[3] Faced with budget cuts and economic hardship in general, charitable entities have become increasingly dependent upon donations from the private sector to meet their expenses.[4] Contributions from individuals in particular have risen to meet this demand, with individuals donating an estimated 71.72 billion dollars in 1986, or 82.2% of the total.[5] This apparent willingness on the part of American consumers to maintain and even increase the amount of income donated to charities, however, provides greater opportunities for those who employ fraud and misrepresentation to steer funds away from legitimate causes.[6] A majority of the states have recognized this danger, and as a result have enacted laws attempting to regulate, in some manner, the solicitation of charitable donations.[7]

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1. Riley v. National Fed'n of the Blind, 108 S. Ct. 2667 (1988).

2. American Association of Fund-Raising Council, Inc., Giving U.S.A., 1986 Annual Report 11 (1987) [hereinafter Giving U.S.A.].

3. The 1986 estimated total shows a 7.5 billion dollar increase over the 1985 estimated total, a gain of 9.4%. *Id.* at 12.

4. Steele, *Regulation of Charitable Solicitation: A Review and Proposal*, 13 J. Legis. 149, 150 (1986). *See also* Giving U.S.A., *supra* note 2, at 93.

5. Contributions by corporations accounted for 4.5 billion dollars, or 5.2% of the total; foundations accounted for 5.17 billion, or 5.9%; and bequests accounted for 5.83 billion dollars, 6.7% of the total. Giving U.S.A., *supra* note 2, at 11.

6. Steele, *supra* note 4, at 151. *See infra* text accompanying notes 95-110.

7. Arkansas, California, Connecticut, District of Columbia, Florida, Georgia, Hawaii, Illinois, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Nebraska, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Utah, Virginia, Washington, West Virginia, and Wisconsin. Steele, *supra* note 4, at 154 n.31 (citing *The Philanthropy Monthly, Survey of State Laws Regulating Charitable Solicitation* (1985)). Since the date that survey was published, three states have enacted similar laws: Ala. Code §§ 13A-9-70 to -76 (Supp. 1989); Ind. Code §§ 23-7-8-1 to -9 (1988); Mo. Rev. Stat. §§ 407.450, .453, .456, .459, .462, .466, .469, .472 and .478 (Supp. 1989).

Some states attempting to regulate charitable solicitations have confined the scope of regulation to professional fundraisers.[8] Indiana is one such state.[9] In 1984, the Indiana legislature enacted the Professional Fundraiser Consultant and Solicitor Registration Act.[10] In a decision rendered on November 29, 1988, the United States District Court for the Southern District of Indiana found that sections of the Indiana Act requiring disclosure of a professional solicitor's fee arrangements were impermissibly overbroad restrictions of protected first amendment activities.[11] Three recent United States Supreme Court decisions which have dealt with state or local restrictions on charitable solicitors factored in the outcome of the Indiana case.[12]

In each of the Supreme Court decisions, the Court found that the statute or ordinance in question infringed upon protected speech, and was therefore, unconstitutional.[13] The most recent constitutional challenge to a charitable solicitation statute was made in *Riley v. National Federation of the Blind*.[14] The North Carolina statute at issue in *Riley* contained some similarities to the Indiana registration act.[15] The North Carolina statute addressed professional fundraisers specifically.[16] In affirming the judgment of the United States Court of Appeals for the Fourth Circuit, the Supreme Court found that provisions which regulated the amount which a professional fundraiser can charge a charity unconstitutionally infringed upon freedom of speech.[17] Also stricken was a provision which required professional fundraisers to disclose to potential donors the percentage of revenues retained for all charitable solicitations conducted in the state in the previous 12 months.[18]

In addressing the substantive issue, the Court refrained from deciding whether the solicitation for charitable contributions by a professional fundraiser came within the scope of that which is considered

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8. *See e.g.*, ARK. STAT. ANN. §§ 17-34-101 to -109 (1987); KY. REV. STAT. ANN. §§ 367.650, .655, .657, .660, .665, and .670 (Michie/Bobbs-Merrill 1987); OHIO REV. CODE ANN. §§ 1716.01 to .07 (Anderson 1985).

9. IND. CODE §§ 23-7-8-1 to -9 (1988).

10. *Id.*

11. Indiana Voluntary Fireman's Ass'n. v. Pearson, 700 F. Supp. 421 (S.D. Ind. 1988).

12. Village of Schaumburg v. Citizens for a Better Env't, 444 U.S. 620 (1980); Secretary of State of Md. v. Joseph H. Munson Co., 467 U.S. 947 (1984); and Riley v. National Fed'n of the Blind, 108 S. Ct. 2667 (1988).

13. *Schaumburg*, 444 U.S. at 639; *Munson*, 467 U.S. at 970; *Riley*, 108 S. Ct. at 2681.

14. 108 S. Ct. 2667.

15. *See infra* notes 75, 134 & 162 and accompanying text.

16. N.C. GEN. STAT. § 131C-1 (1987).

17. *Riley*, 108 S. Ct. at 2671.

18. *Id.* at 2672.

"commercial speech."[19] The Court, however, refused to apply the more deferential commercial speech principles to the conduct of professional fundraisers, holding that even if such conduct was commercial, it loses its commercial nature when it becomes inextricably intertwined with otherwise fully protected speech.[20] This reasoning was first set forth in *Village of Schaumburg v. Citizens for a Better Environment*,[21] a case which did not involve professional fundraisers. The Supreme Court did, however, extend this rationale to situations involving professional fundraisers in *Secretary of State of Maryland v. Joseph H. Munson Co.*[22]

Prior to these decisions, the Court had set standards to identify commercial speech and to determine its application under the first amendment.[23] In the past, the Court has been willing to allow some restrictions on commercially motivated speech, one of which is to require the speaker to disclose information which would enable the listener to make an educated decision.[24] Required disclosures of information exist in Indiana's Professional Fundraiser Registration Act,[25] and were the focus of constitutional scrutiny in the recent decision by the district court in Indiana.[26]

The purpose of this Note is to analyze the commercial speech doctrine in its developmental stages and in its recent applications, particularly as it relates to the activities of paid professionals. In addition, the Note will examine the services provided by professional fundraising solicitors, with the emphasis on the realities and practices of the trade, and then will apply the appropriate protections accorded such activities under the first amendment.[27] Further, the Indiana statute regulating professional fundraising solicitors will be compared with other regulations which have been subject to constitutional scrutiny. The Note will conclude with an analysis of disclosure requirements for the purpose of determining whether the Indiana provisions are narrowly tailored enough to pass constitutional muster, once the threshold inquiry is made concerning the commercial speech doctrine. Under a proper commercial speech analysis, the Indiana statute should withstand such a challenge.

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19. *Id.* at 2677.
20. *Id.*
21. 444 U.S. 620 (1980).
22. 467 U.S. 947 (1984).
23. *See infra* note 93 and accompanying text.
24. *See infra* text accompanying notes 45-47.
25. IND. CODE § 23-7-8-6 (1988).
26. *See infra* notes 134 & 162.
27. U.S. CONST. amend. I.

II. The Commercial Speech Doctrine

A. Early Development and Application

An analysis of the commercial speech doctrine in conjunction with the activities of professional fundraising solicitors should be undertaken because the Supreme Court has held that the Constitution accords lesser protection to commercial speech than it does to other forms of constitutionally guaranteed expression.[28] Also, in recent decisions involving charitable solicitations by professional fundraisers, the Court did not apply the commercial speech doctrine in a manner consistent with prior rulings on the issue.[29] Adding to the complexity of the analysis is the less than precise definitions which the Supreme Court has given to "commercial speech." Commercial speech generally has been defined as "speech of any form that advertises a product or service for profit or for business purpose."[30] The United States Supreme Court first applied the commercial speech criterion in *Valentine v. Chrestensen*.[31] In that case, a business man distributing leaflets containing advertisements was convicted of violating a municipal ordinance prohibiting such distribution, despite the fact that a message which contained otherwise fully protected speech appeared on the opposite side of the handbill.[32] In affirming his conviction, the Court found that the businessman was merely pursuing "a gainful occupation in the streets,"[33] and as such, his commercial speech was as subject to regulation as any other purely commercial activity.[34] In subsequent cases, the Supreme Court applied the "primary purpose" test of commercial speech: if profit is the underlying motive for the solicitation, the speech in question is deemed commercial in nature, and is therefore not entitled to first amendment protection.[35]

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28. Central Hudson Gas & Elec. Corp. v. Public Serv. Comm'n, 447 U.S. 557, 562-63 (1980) (quoting Ohralik v. Ohio State Bar Ass'n, 436 U.S. 447, 455-56 (1978)).

29. *See infra* text accompanying notes 64-72 & 77-78.

30. J. Nowak, R. Rotunda & J. Young, Constitutional Law 904 (1986).

31. 316 U.S. 52 (1942).

32. The handbill promoted the commercial exhibition of a decommissioned Navy submarine owned by the entrepreneur. The other side of the flyer contained no commercial advertising, but instead contained a protest against the New York City Dock Department's refusal to allow the businessman wharfage facilities at a city pier for the exhibition of the submarine. *Id.* at 53.

33. *Id.* at 54.

34. *Id.* at 54-55.

35. In Murdock v. Pennsylvania, 319 U.S. 105 (1943) a group of Jehovah's Witnesses were convicted of selling religious books without paying a license tax. The Supreme Court reversed the convictions, holding that profits from the books were "incidental" and "collateral" to their primary purpose of disseminating religious beliefs. In Breard v. Alexandria, 341 U.S. 622, *reh'g denied*, 342 U.S. 843 (1951), however, the Court upheld a local ordinance banning unsolicited door-to-door magazine sales, citing the profit motive underlying the transaction.

Although later Supreme Court decisions softened the application of the commercial speech doctrine, a comprehensive definition of commercial speech continued to prove elusive. In *Pittsburgh Press Co. v. Pittsburgh Commission on Human Relations*,[36] the Court defined commercial speech as that which does "no more than propose a commercial transaction."[37] This definition was applied in *Virginia State Board of Pharmacy v. Virginia Citizens Consumer Council*,[38] where the Supreme Court held that a state could not completely suppress the dissemination of truthful information about lawful activity, despite the fear that such information would have a harmful effect upon its recipients.[39] Here, the "lawful activity" in question was the sale of prescription drugs, while the commercial speech involved was the advertisements for the drugs.[40]

In finding that it was clear that "speech does not lose its First Amendment protection because money is spent to project it,"[41] the Court implicitly overruled prior decisions exempting commercial speech from such constitutional protection.[42] However, the Court indicated that, though commercial speech is to be protected, some forms of "time, place and manner" restrictions are "surely permissible."[43] Further, if the commercial speech in question is not provably or wholly false, but only deceptive or misleading, the state may place appropriate restrictions on that activity also.[44]

The primary reason that the Supreme Court in *Virginia State Board* held that commercial speech is entitled to first amendment protection is that the consumer has a significant interest in the free flow of

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36. 413 U.S. 376 (1973).

37. The transaction at the heart of this case was a newspaper's acceptance of a help-wanted advertisement which allowed the prospective employer to make hiring decisions based on the gender of the applicant. In refusing to abrogate the distinctions between commercial speech and pure speech, the Court found that employment advertising was commercial activity, and discrimination in such advertising made the commercial activity illegal. *Id.* at 388.

38. 425 U.S. 748 (1976).

39. *Id.* at 774.

40. *Id.*

41. *Id.* at 761.

42. *Id.* at 770. The court expressly overruled the commercial speech exemption in Village of Schaumburg v. Citizens for a Better Environment, 444 U.S. 620, 632 n.7 (1980), holding that "[t]o the extent that any of the Court's past decisions discussed in Part II hold or indicate that commercial speech is excluded from First Amendment protection, those decisions . . . to that extent, are no longer good law."

43. *Virginia State Bd.*, 425 U.S. at 770-71. The Court noted that it approved of restrictions which were justified without reference to the regulated speech, so long as the regulations serve a significant governmental interest and leave open ample alternative channels for communication of the information. *Id.*

44. *Id.* at 771. *See infra* text accompanying notes 94-114.

commercial information.[45] The Court found it a matter of public interest that, in a free enterprise economy, those private economic decisions which allocate resources in large measure should be decisions which are made in an intelligent and well-informed manner.[46] The Court also reasoned that the free flow of commercial information is indispensable in formulating intelligent opinions as to how to apply appropriate regulations to matters relating to our free enterprise economy.[47]

It is significant that the Supreme Court retained the distinction between commercial speech and pure speech. If the activity of professional solicitors is commercial in nature, the state is clearly given more leeway to regulate the profession, albeit not in the sense that such activity is completely without substantial protection under the first amendment. Applying the definitions of commercial speech set forth by the Supreme Court to the activity of professional solicitors, it could readily be argued that professional solicitors are pursuing "a gainful occupation," as discussed in *Valentine*.[48] State legislatures generally define professional solicitors as those who solicit contributions for, or on behalf of, a charitable organization, and who are given financial consideration in return.[49] Although the entrepreneur in *Valentine* included with his advertisement non-commercial speech which would have otherwise been given complete protection under the first amendment, the Court found that his intent and purpose was to distribute his commercial message.[50] Thus, under the definition set forth by the Supreme Court in *Valentine*, "commercial speech" would encompass the activities of those who pursue a gainful occupation by soliciting donations for charitable organizations, despite the fact that their speech contained some elements of non-commercial, more fully protected speech. Other federal courts have come to the same conclusion, characterizing speech as commercial speech even when pure speech information is included.[51]

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45. The Court found that the consumer's interest in this information was "as keen, if not keener by far, then his interest in the day's most urgent political debate." *Id.* at 764.

46. *Id.*

47. *Id.*

48. 316 U.S. 52 (1942).

49. *See, e.g.*, IND. CODE § 23-7-8-1 (1986 & Supp. 1987) which states: "'Professional solicitor' means a person who for a financial consideration solicits contributions for, or on behalf of, a charitable organization, either personally or through agents or employees specifically employed for that purpose. The term does not include a charitable organization or an officer, employee, member, or volunteer of a charitable organization." *See also* GA. CODE ANN. § 43-17-2-10 (1988) (definition of "paid solicitor"); OHIO REV. CODE ANN. § 1716.01(E) (Anderson 1985 Repl. Vol.) ("professional solicitor" definition).

50. *Valentine*, 316 U.S. at 55.

51. *See e.g.*, Fox v. Board of Trustees of State University of N.Y., 649 F. Supp.

It can not be determined that the definition of commercial speech promulgated in *Valentine* was stricken when the Court overruled the commercial speech exclusion from first amendment protection in *Virginia State Board*.[52] In that decision, the Court implied that a profit motive is the hallmark of commercial speech, noting also that the desire to profit is powerful enough to withstand state regulation.[53] As a practical matter, professional solicitors are motivated to solicit contributions by the opportunity for financial gain. Profit may in fact be the primary motive for their activity. If this is the case, there is "little likelihood of [their commercial speech] being chilled by proper regulation. . . ."[54]

B. Recent Applications of the Commercial Speech Doctrine

Recent cases have not aided in the search for a precise definition of commercial speech. Drawing on the findings of *Virginia State Board* and *Bates v. State Bar of Arizona*,[55] the Supreme Court in *Central Hudson Gas & Electric Corp. v. Public Service Commission*[56] defined commercial speech as "expression related solely to the economic interests of the speaker and its audience."[57] This would appear to narrow the scope of the commercial speech application to those instances where the information disseminated does not contain a single reference to any matter accorded full protection under the first amendment. Thus, communicated information of a generally commercial nature which contains even an insignificant portion of protected speech would be considered non-commercial speech. Yet, in regard to another opinion decided the same day,[58] the Court expressly held that, although utilities enjoy "the full panoply of First Amendment protections for their direct comments on public issues[,] [t]here is no reason for providing similar constitutional protection when such statements are made only in the context of commercial transactions."[59] In the latter situation, reasonable state regulations would be permissible.[60]

In fact, the Court has indicated that the very nature of commercial speech prevents its inhibition by even overbroad legislation, because

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1393 (N.D.N.Y. 1986), *rev'd*, 841 F.2d 1207 (2nd Cir. 1988), *rev'd*, 109 S. Ct. 3028 (1989); American Future Sys. v. State University of N.Y., Cortland, 565 F. Supp. 754 (1983).

52. 425 U.S. 748 (1976).
53. *Id.* at 772 n.24.
54. *Id.*
55. 433 U.S. 350 (1977).
56. 447 U.S. 557 (1980).
57. *Id.* at 561.
58. Consolidated Edison Co. v. Public Serv. Comm'n, 447 U.S. 530 (1980).
59. *Central Hudson*, 447 U.S. at 563 n.5.
60. *Id.*

commercial speech is the offspring of economic self-interest, a particularly "hardy breed of expression."[61] As indicated earlier, a primary motivator of a professional solicitor's conduct is economic self-interest, or profit. Further, the fact that a professional solicitor has extensive knowledge of the market and the product or service being offered, compared with the recipient of such information, is also indicative of commercial expression.[62]

Insofar as the recent Supreme Court decisions on charitable solicitations,[63] it appears that the Court has declined to apply previously set standards to distinguish commercial speech from "pure" speech. In *Village of Schaumburg v. Citizens for a Better Environment*,[64] the Court found, without any supporting authority, that charitable appeals for funds are "characteristically intertwined with informative and perhaps persuasive speech seeking support for particular causes or for particular views on economic, political, or social issues. . . ."[65] In deciding that the speech in question was not a variety of "purely commercial speech," the Court reasoned that "charitable solicitation does more than inform private economic decisions, and is not primarily concerned with providing information about the characteristics and costs of goods and services. . . ."[66] Once the speech in *Schaumburg* was classified as not "purely" commercial speech, it was accorded full first amendment protection, and the ordinance which was the subject of the lawsuit was stricken as unconstitutional.[67]

Although the situation in *Schaumburg* involved solicitation by the charitable organization itself, the Court's rationale excluding the doctrine of commercial speech from the context of charitable appeals for funds was extended to the conduct of professional solicitors for the first time in *Secretary of State of Maryland v. Joseph H. Munson Co.*[68] In a five to four decision, the Court found that a statute similar to the ordinance in *Schaumburg*, which restricted the amount that a charity could spend on non-charitable purposes, such as administrative costs and fundraising, was unconstitutional because the statute created the unnecessary risk of chilling free speech.[69]

Except for a brief note relating that the fact that professional solicitors are paid to disseminate information does not in itself render

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61. *Id.* at 565 n.6 (quoting Bates v. State Bar of Ariz., 433 U.S. 350, 381 (1977)).
62. *Bates*, 433 U.S. at 384 (1977).
63. *See supra* note 12.
64. 444 U.S. 620 (1980).
65. *Id.* at 632.
66. *Id.*
67. *Id.* at 639.
68. 467 U.S. 947 (1984).
69. *Id.* at 968.

their activity unprotected,[70] the Court did not address whether such activity was commercial in nature. Even if the *Munson* decision had addressed the issue and had found the professional solicitor's activity to be commercial speech, such activity would likely still be protected under the *Virginia State Board* and *Central Hudson* standards,[71] albeit to a lesser extent. Thus, in failing to address the issue, the commercial speech doctrine was not applied, and the statute was found to be insufficiently related to asserted state interests to justify the interference with free speech.[72]

On June 29, 1988, the Supreme Court handed down the decision in *Riley v. National Federation of the Blind*[73] The initial suit was brought by a coalition of charitable organizations, professional fundraising solicitors, and potential donors of charitable contributions, who alleged that the statute which regulated solicitation of charitable contributions was unconstitutionally overbroad to serve the state's interest in preventing fraud.[74] As in *Schaumburg* and *Munson*, the North Carolina statute contained limitations on the portion of contributions which could be spent on non-charitable purposes; in this case, specific limitations on the amounts which could be retained by the professional solicitor.[75] Unlike the regulations which were stricken in the prior two cases, however, the Court also struck down a provision which required professional solicitors to disclose, at the time of the solicitation, the percentage of

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70. *Id.* at 955-56 n.6. *See also* New York Times Co. v. Sullivan, 376 U.S. 254, 266 (1964).

71. *See supra* text accompanying notes 41-57.

72. *Munson*, 467 U.S. at 961-62.

73. 108 S. Ct. 2667 (1988).

74. *Id.* at 2672.

75. N.C. GEN. STAT. § 131C-17.2 (1986) formerly provided:

> (b) For purposes of this section a fund-raising fee of twenty percent (20%) or less of the gross receipts of all solicitations on behalf of a particular person established for a particular charitable purpose is deemed to be reasonable and nonexcessive.
>
> (c) For purposes of this section a fund-raising fee greater than twenty percent (20%) but less than thirty-five percent (35%) of the gross receipts of all solicitations on behalf of a particular person established for a charitable purpose is excessive and unreasonable if the party challenging the fund-raising fee also proves that the solicitation does not involve the dissemination of information, discussion, or advocacy relating to public issues as directed by the person established for a charitable purpose which is to benefit from the solicitation.
>
> (d) For purposes of this section only, a fund-raising fee of thirty-five percent (35%) or more of the gross receipts of all solicitations on behalf of a particular person established for a charitable purpose may be excessive and unreasonable without further evidence of any fact by the party challenging the fund-raising fee.

charitable contributions collected during the previous twelve months that were actually turned over to charity.[76]

The Court addressed but did not decide the commercial speech issue, noting that even if a paid solicitor's speech is commercial, the speech does not retain its commercial character when it is "inextricably intertwined" with speech that is fully protected.[77] Therefore, the Court applied the test for fully protected speech. This rationale was the one invoked first in *Schaumburg*, a situation which did not involve a paid professional, and extended in *Munson*, which did concern the activities of professional solicitors.[78] In effectively deciding that the solicitation of charitable contributions by paid professionals is neither "pure speech" nor "purely commercial speech," the Court has departed from decisions which have established that a distinction exists between the two types of speech, and the distinction must be made in order to apply the appropriate first amendment test.

The Supreme Court has long recognized a distinction between commercially-motivated activity, which is subject to state regulation, and the first amendment rights of those involved in that activity.[79] The constant competition between these two interests is hardly unique to situations involving professional solicitors.[80] In his concurring opinion in *Thomas v. Collins*,[81] Justice Jackson illustrated this point by acknowledging that the state may regulate the medical profession, but the state could not

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76. N.C. GEN. STAT. § 131C-16.1 (1986) formerly stated:

> During any solicitation and before requesting or appealing either directly or indirectly for any charitable contribution a professional solicitor shall disclose to the person solicited:
>
> (1) His name; and,
>
> (2) The name of the professional solicitor or professional fund-raising counsel by whom he is employed and the address of his employer; and,
>
> (3) The average of the percentage of gross receipts actually paid to the persons established for a charitable purpose by the professional fund-raising counsel or professional solicitor conducting the solicitation for all charitable sales promotions conducted in this State by that professional fund-raising counsel or professional solicitor for the past 12 months, or for all completed charitable sales promotions where the professional fund-raising counsel or professional solicitor has been soliciting funds for less than 12 months.

77. *Riley*, 108 S. Ct. at 2677.

78. *See supra* text accompanying notes 64-71.

79. *See, e.g.*, Ohralik v. Ohio State Bar Ass'n, 436 U.S. 447, 460-61 (1977); Virginia State Bd. of Pharmacy v. Virginia Citizens Consumer Counsel, 425 U.S. 748, 766 (1976); Goldfarb v. Virginia State Bank, 421 U.S. 773, 792 (1974).

80. *See* Thomas V. Collins, 323 U.S. 516, 544 (1945) (Jackson, J., concurring).

81. 323 U.S. 516 (1945).

prohibit speech which urges others to follow or reject any school of medical thought.[82] Justice Jackson noted:

> This wider range of power over pursuit of a calling than over speech-making is due to the different effects which the two have on interests which the state is empowered to protect. The modern state owes and attempts to perform a duty to protect the public from those who seek for one purpose or another to obtain its money. When one does so through the practice of a calling, the state may have an interest in shielding the public.[83]

In *Ohralik v. Ohio State Bar Association*,[84] the Court rejected the suggestion to abandon the distinction between commercial speech and non-commercial speech, reasoning that failure to make such a distinction "could invite dilution, simply by a leveling process, of the force of the [First] Amendment's guarantee with respect to the latter kind of speech."[85] This decision was reinforced in *Central Hudson*, where the Court refused to "blur further the line the Court has sought to draw in commercial speech cases."[86]

It could be inferred from these decisions that the Court, when confronted with a situation involving professionals, should first determine whether the expression sought to be protected is commercial in nature. In the past the Court has not been reluctant to separate a professional's commercial expression from those activities which are accorded full freedom of speech protections.[87] Yet in *Munson* and *Riley,* the Court did not find it necessary to make the distinction. In so doing, they created a "hybrid" expression by "intertwining" the commercial speech with elements of pure speech. These rulings do not preserve the earlier decisions' concern about the dilution of the first amendment, nor do they prevent a further "blurring" of the line between commercial and non-commercial speech.

If the distinction between commercial and non-commercial speech is to be treated as viable despite the *Munson* and *Riley* holdings, the Supreme Court must scrutinize the business of professional solicitation and determine if any "common-sense" distinctions exist between the transaction proposed by a professional solicitor and other varieties of speech.[88] Taking into account that the professional solicitor is pursuing

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82. *Id.* at 544 (Jackson, J., concurring).
83. *Id.* at 545.
84. 436 U.S. 447 (1978).
85. *Id.* at 456.
86. Central Hudson Gas & Elec. Corp. v. Public Serv. Comm'n, 447 U.S. 557, 563 n.5 (1980).
87. *See supra* text accompanying notes 79-83.
88. *Central Hudson*, 447 U.S. at 563.

"a gainful occupation" and is motivated by profit, it could be concluded that the expression at issue is commercial in nature. Further, the solicitation may indeed be "related solely to the economic interests of the speaker and its audience,"[89] for, as Justice Rehnquist noted in the dissent of *Munson*, "professional fundraisers . . . are not themselves engaged in advocating any causes."[90] The solicitation is certainly related to the economic interests of the listener, who is being asked to part with his money. Although this solicitation is not always related solely to the audience's economic interests, the inclusion of non-commercial elements into otherwise commercial speech will not automatically render such speech "pure," and thereby accord it the full protection under the first amendment.[91] Identification of some abstract, non-commercial value in commercial speech should not prevent the Supreme Court from making the "common-sense" distinctions required to prevent dilution of the first amendment.[92] Once a type of expression is deemed commercial, the statute purporting to regulate the expression must withstand the analysis of a test prescribed by the Supreme Court in *Central Hudson Gas & Electric Corp. v. Public Service Commission*.[93]

C. The Central Hudson Commercial Speech Test

In applying the four-part test outlined in *Central Hudson*, a court must first determine whether the expression is protected by the first amendment.[94] For commercial speech to come within that protection, the expression must at least concern lawful activity and not be misleading.[95] While the solicitation for charitable contributions by a professional solicitor who is registered as such with the state is a legal activity, there are many instances where much of the solicitation conducted is done so in a misleading manner.[96] Due to the fact that much solicitation occurs on a one-to-one basis, either in person or over the

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89. *Id.* at 562.

90. Secretary of State of Md. v. Joseph H. Munson Co., 467 U.S. 947 (1984) (Rehnquist, J., dissenting).

91. The Court in *Virginia State Board of Pharmacy v. Virginia Citizens Consumer Council* noted that, even an advertisement which is entirely commercial may be of general public interest; in fact, "[t]here are few [advertisements] to which such an element, however, could not be added." 425 U.S. 748, 764 (1976).

92. American Future Sys. v. State University of N.Y., Cortland, 565 F. Supp. 754, 762 (1983).

93. 447 U.S. 557 (1980).

94. *Id.* at 567.

95. *Id. Accord Virginia State Bd. of Pharmacy* 425 U.S. at 771 (1976); Ohralik v. Ohio State Bar Ass'n, 436 U.S. 447, 464-65 (1978); Pittsburgh Press Co. v. Pittsburgh Commission on Human Rights, 413 U.S. 376, 388, *reh'g denied*, 414 U.S. 881 (1973).

96. *See infra* text accompanying notes 102-04.

telephone, once the solicitor receives a donation there are no effective means of tracking the transaction.[97] A donor may contribute money and not even realize that his donation did not find its way to the intended charity.[98] Several commentators have acknowledged that in the area of charitable appeals for funds, consumers have been "abused, imposed upon, and defrauded because of the lack of adequate safeguards."[99] A report issued by the National Health Council (NHC) in 1965 recognized that fraudulent appeals not only victimized the public, but "siphon[ed] off millions of dollars from support for legitimate agencies."[100] Since the year that report was published, total charitable giving by individuals has increased six times.[101] The amount of funds misdirected or fraudulently obtained in recent years has most likely increased correspondingly.

Agencies which have examined the issue of regulation for charitable solicitations are by no means the only ones recognizing that fraudulent practices occur in the field of fundraising. American consumers are becoming increasingly skeptical of charitable appeals.[102] A Gallup poll conducted in 1987 showed that 40% of those asked thought that fundraising practices employed by charitable organizations were less than ethical.[103] Another survey, conducted by the Philanthropic Advisory Service of the Better Business Bureau, found that one-third of the 1,000 contributors who responded expected 80% of their donation to go to the charity, while the typical charity receives roughly 60%.[104] Given the history of deception employed by some fundraisers, and present public

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97. NATIONAL HEALTH COUNCIL, VIEWPOINTS ON STATE AND LOCAL LEGISLATION REGULATING SOLICITATION OF FUNDS FROM THE PUBLIC (1965) [hereinafter VIEWPOINTS]. *See also* Marx & Wark, *Faith. Hope and Chicanery*, 18 WASH. MONTHLY, January 1987, at 25-26.

98. *See e.g.*, Heritage Publishing Co. v. Fishman, 634 F. Supp. 1489 (D. Minn. 1986), where a professional solicitor (Heritage) told prospective contributors that the calls were being made on behalf of the "Minnesota Child Abuse Program," although Heritage had been retained by the American Christian Voice Foundation.

99. VIEWPOINTS, *supra* note 96, at vii.

100. *Id.* at viii.

101. GIVING U.S.A., *supra* note 2, at 14.

102. *See generally* Marx & Wark, *supra* note 97, at 25-31 (discussing fundraising activities and disbursements of the Shrine Temple); Cryderman, *Why Do Americans Distrust Christian Fund Raisers?*, 31 CHRIST. TODAY, April 17, 1987, at 38 (public perception of fund raisers in light of Oral Roberts' highly publicized appeal for funds in January of 1987); Ostling, *A Really Bad Day at Fort Mill*, 129 TIME, March 30, 1987, at 70 (describing "backlash" that may hinder fundraising efforts due to the television evangelist Jim Baker scandal).

103. *Questioning Tactics*, 129 TIME, March 30, 1987, at 70. George Gallup Jr. noted: "There have been extravagances and questionable tactics, and surely this has soured people's attitudes toward giving. . . ." *See also* Heritage Publishing Co. v. Fishman, 634 F. Supp. 1489, 1492 (D. Minn. 1986).

104. Marx & Wark, *supra* note 97, at 30.

perception of the practice, the Supreme Court may want to examine the conduct of professional solicitors as they have other professions.

In *Ohralik v. Ohio State Bar Association*,[105] the Court found that the possibility of "fraud, undue influence, intimidation, overreaching, and other forms of 'vexatious conduct'" was so likely in the context of in-person solicitation that the solicitation could be regulated, and even prohibited.[106] The following year the Court upheld a Texas statute which regulated optometrists, citing the considerable history in Texas of deception and abuse worked upon the consuming public.[107] A recent federal court decision concerning the funeral service profession found that the profession does not have to actively mislead consumers, but if the evidence indicates that consumers are nonetheless being misled, the state may impose regulations to remedy the deception.[108] This finding has been reinforced by the Supreme Court decision of *In re R.M.J.*[109] In this case, the Court found that the state may impose appropriate restrictions when experience has proven that the commercial speech is subject to abuse, or where the content or method of commercial speech suggests that it is inherently misleading.[110]

Legislative findings also indicate that the practice of solicitation for charitable funds, by professionals in particular, has been beset by fraud and inefficiency.[111] It is in response to these conditions, which have a significant impact upon the well being of their citizens, that states have enacted legislation to regulate the charitable solicitation industry.[112] The

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105. 436 U.S. 447 (1978).

106. *Id.* at 462.

107. Friedman v. Rogers, 440 U.S. 1 (1979) (*quoted in In re* R.M.J., 455 U.S. 191 (1982)).

108. Harry & Bryant v. FTC, 776 F.2d 993, 1001 (1984).

109. 455 U.S. 191 (1982).

110. *Id.* at 204. Advertisements of attorneys, optometrists, and funeral directors are by no means the only instances where the Supreme Court has applied the "commercial speech" label to the communication in question: *See, e.g.*, Village of Hoffman Estate, Inc. v. Flipside, Hoffman Estates, Inc., 455 U.S. 489 (1982) (display and sale of drug-related paraphernalia); Metromedia, Inc., v. City of San Diego, 453 U.S. 490 (1981) (billboard advertisements); Central Hudson Gas & Elec. Corp. v. Public Serv. Comm'n, 447 U.S. 557 (1980) (promotional advertisements of utility); Virginia State Bd. of Pharmacy v. Virginia Consumer Council, 425 U.S. 748 (1976) (prescription drug advertisements by pharmacy).

111. Illinois Legislative Council, Report on Regulation of Charitable Fund-Raising (1954).

112. *See, e.g.*, Cal. Bus. & Prof. Code § 17510 (West 1987), which reads:

> (a) The Legislature finds that there exists in the area of solicitations and sales solicitations for charitable purposes a condition which has worked fraud, deceit and imposition upon the people of the state which existing legal remedies are inadequate to correct. Many solicitations or sales solicitations for charitable

District Court for the Southern District of Indiana, faced with the challenge to the Indiana Professional Fundraiser Consultant and Solicitor Registration Act, could have taken notice of legislative findings or based their analysis on recognized public perception of charitable solicitation practices to determine that solicitation for charitable donations is, in the least, potentially misleading to consumers in Indiana. Even if it is decided that such conduct is potentially misleading, the activities of professional solicitors would not be completely prohibited.[113] The state should, however, be entitled to place appropriate restrictions on the manner in which the solicitation is presented. As the Court in *Virginia State Board* noted, "[t]he First Amendment. . .does not prohibit the State from insuring that the stream of commercial information flow cleanly as well as freely."[114]

Assuming, however, that a court is not persuaded to find that the speech in question is misleading or illegal,[115] the second test in the *Central Hudson* analysis of commercial speech protection must be undertaken. The state must now assert a substantial interest to be achieved by restrictions on commercial speech.[116] Generally, the interest asserted by the state is the protection of its citizens from fraud and misrepresentation in the solicitation of charitable contributions.[117] The courts have not

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purposes have involved situations where funds are solicited from the citizens of this state for charitable purposes, but an insignificant amount, if any, of the money solicited and collected actually is received by any charity. The charitable solicitation industry has a significant impact upon the well-being of the people of this state. The provisions of this article relating to solicitations and sale solicitations for charitable purposes are, therefore, necessary for the public welfare.

(b) The Legislature declares that the purpose of this article is to safeguard the public against fraud, deceit and imposition, and to foster and encourage fair solicitations for charitable purposes, wherein the person from whom the money is being solicited will know what portion of the money will actually be utilized for charitable purposes. This article will promote legitimate solicitations and sales solicitation for charitable purposes and restrict harmful solicitation methods, thus the people of this state will not be misled into giving solicitors a substantial amount of money which may not in fact be used for charitable purposes.

113. *In re* R.M.J., 455 U.S. 191, 203-04 (1982).

114. 425 U.S. 748, 771-72 (1976).

115. For an application of statutory provisions regulating illegal conduct by professional solicitors, *see* Heritage Publishing Co. v. Fishman, 634 F. Supp. 1489 (D. Minn. 1986), where the professional fundraiser solicited contributions in the state without being registered, in violation of MINN. STAT. § 309.52 (West 1969 & Cum. Supp. 1988).

116. *Central Hudson Gas & Elec. Corp.* 447 U.S. at 563 (1980).

117. *See e.g.*, Village of Schaumburg v. Citizens for a Better Env't, 444 U.S. 620, 636 (1980); Secretary of State of Md. v. Joseph H. Munson Co., 467 U.S. 947, 966 (1984); Riley v. National Fed'n of the Blind, 108 S. Ct. 2667, 2675 (1988); International

denied that this asserted state interest is compelling.[118] The Indiana law regulating professional solicitors, similar to laws in other states, was clearly enacted with this interest in mind. The consumer's interest in making a well-informed and intelligent economic decision goes hand-in-hand with the interest in the prevention of fraud and misrepresentation. This interest in the free flow of information is considered paramount in the context of commercial speech cases.[119] Although this interest has normally been associated with cases involving product advertising,[120] and advertisements for professional services,[121] this interest could easily be extended to appeals for charitable donations by professional solicitors. Being provided with a free flow of information from the solicitor enables the prospective donor to make an intelligent decision as to how to allocate his economic resources among the many worthy causes from which he has to choose.[122]

With the second requirement of the *Central Hudson* four-part test being met, a court should then ascertain whether the regulation directly advances the governmental interests asserted.[123] For example, in *Munson*, the statute in question contained a provision limiting the percentage of contributions which the charity could spend on fundraising activities.[124] Even if the speech of the professional solicitor in *Munson* was characterized as commercial expression, it is unlikely that the statute would have survived the third step in the four-part analysis of *Central Hudson*. A percentage limitation may restrict solicitation costs, but as the Court logically reasoned, restricted solicitation costs will not necessarily reduce the likelihood of fraud.[125] In *Riley*, however, the Court not only struck

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Soc'y for Krishna Consciousness v. City of Houston, Tex., 689 F.2d 541, 550 (5th Cir. 1982).

118. *Schaumburg*, 444 U.S. at 636; *Riley*, 108 S. Ct. at 2675.

119. *See supra* text accompanying notes 45-47.

120. *E.g.*, Virginia State Bd. of Pharmacy v. Virginia Citizens Consumer Council, 425 U.S. 748 (1976); FTC v. Brown & Williamson Tobacco Corp., 778 F.2d 35 (D.C. Cir. 1985).

121. *E.g.*, Zauderer v. Office of Disciplinary Counsel, 471 U.S. 626 (1985).

122. It is estimated that there are more than 350,000 gift-supported organizations, institutions, and agencies in the United States today. GIVING U.S.A., *supra* note 2, at 6.

123. *Central Hudson Gas & Elec. Corp.* 447 U.S. at 566 (1980).

124. The *Munson* Court, quoted from MD. ANN. CODE art. 41, § 103D (1982), which read in part:

> (a) A charitable organization other than a charitable salvage organization may not pay or agree to pay as expenses in connection with any fund-raising activity a total amount in excess of 25 percent of the total gross income raised or received by reason of the fund-raising activity. . . .

467 U.S. 947, 950 n.2 (1984).

125. The Court observed: "That the statute in some of its applications actually prevents the misdirection of funds from the organization's purported charitable goal is little more than fortuitous." *Id.* at 966-67.

down a provision similar to the one in *Munson*, but also found that a provision which required the professional solicitor to disclose certain information was unconstitutional.[126] The provision in the North Carolina statute being challenged called for professional solicitors to disclose, to all potential donors at the time of the solicitation, the percentage of charitable contributions collected during the previous twelve months that were turned over to charity.[127] The Supreme Court found this requirement burdensome and imprecise because, among other things, it concerned unrelated past fundraising campaigns whether or not they were similar to the solicitation made at the time of disclosure.[128] If the Court had found that the solicitor's speech in *Riley* was of a commercial nature, it is not certain that even the required disclosure provision would have been saved. Applying the *Central Hudson* test, the Supreme Court would probably still find the wording of the provision too imprecise to directly advance the state's asserted interests of prevention of fraud and a free flow of information to the consumer. As the Court observed, the disclosure requirement would include information pertaining to past, and possibly completely dissimilar fundraising campaigns. Fundraising costs will necessarily vary depending on the charitable organization involved. Thus, a potential donor would not actually be provided with information which would enable him to make an educated, well-informed decision.

Although the court in *Indiana Voluntary Fireman's Association* struck down the section of the Indiana statute pertaining to the disclosure of a solicitor's fee arrangements, that court acknowledged that there were fundamental factual distinctions between Indiana's statute and the North Carolina provision stricken in *Riley*.[129] The section pertaining to disclosures under Indiana's Professional Fundraiser Act required the solicitor to tell the potential donor "the percentage of charitable contributions which are to be received by the charitable organization or the fee or compensation received by the consultant and the charitable organization *under the contract with the charitable organization*."[130] Thus, the Indiana disclosure requirement was limited to the disclosure of the professional solicitor's fundraising fees for that particular campaign. In that respect, donors were presented with an accurate, free flow of information which made for an educated, well-informed economic decision, and the state's asserted interest was directly promoted. In addition, the Supreme Court has identified, in commercial speech cases, a correlation between required disclosures and the state's interest in preventing fraud and misrepresen-

126. Riley v. National Fed'n of the Blind, 108 S. Ct. 2667, 2679 (1988).
127. *See supra* note 76.
128. *Riley*, 108 S. Ct. at 2679 n.12.
129. 700 F. Supp. 421, 436 (S.D. Ind. 1988).
130. Ind. Code § 23-7-8-6(a)(3) (1988) (emphasis supplied).

tation.[131] In these respects the Indiana statute appeared to advance the asserted governmental interest directly; thus, the statute would have satisfied the third element of the *Central Hudson* test.

The final inquiry in the four-part test is whether the state interest asserted could be served by a more limited restriction on commercial speech.[132] If so, the excessive restrictions cannot survive. In *Riley*, one of the fatal flaws in the disclosure provision at issue was that it encompassed prior unrelated fundraising campaigns.[133] The Supreme Court seemed to indicate that this was an important distinction, and in so doing left open the possibility that a more refined disclosure requirement could withstand a constitutional challenge. The Indiana act contained a more refined requirement, but the District Court for the Southern District of Indiana found that the differences "would have had no impact upon the Court's decision in *Riley*."[134]

In *Riley*, the Supreme Court described some alternatives left open to the state which they considered as more limited forms of regulation than the provisions declared unconstitutional.[135] One option available was that the state could publish the disclosure information and communicate that information to the public.[136] However, this option would be impractical, as there would be no means of insuring that the specific segment of consumers who are targeted by a particular campaign would actually receive that information. As a practical matter, information on one fund drive being conducted by one particular solicitor will often be received by persons who will never be contacted by that solicitor. Conversely, many of those who would be contacted by a solicitor for a donation will have not received the information.

Another option proposed by the Supreme Court is that the state may vigorously enforce existing antifraud laws to prohibit professional solicitors from obtaining money on false pretenses.[137] This alternative would leave the state with no more authority to regulate the occupation then they had prior to the passage of any laws dealing with professional solicitors. Further, antifraud laws are of little value when the consumer

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131. *See infra* text accompanying notes 141-45.

132. *Central Hudson Gas & Elec. Corp.* 447 U.S. at 565 (1980).

133. *Riley*, 108 S. Ct. at 2679 n.12.

134. Indiana Voluntary Fireman's Ass'n. v. Pearson, 700 F. Supp. 421, 444 (S.D. Ind. 1988). The Indiana statute required the solicitor to disclose at the time of the solicitation: "[t]he percentage of charitable contributions which are to be received by the charitable organization or the fee or compensation received by the consultant and the charitable organization under the contract with the charitable organization." IND. CODE § 23-7-8-6(a)(3) (1988).

135. *Riley*, 108 S. Ct. at 2679.

136. *Id.*

137. *Id.*

does not realize he has been deceived; nor are they of any consequence when the fraudulently obtained funds cannot be traced to any particular transaction. Given that the alternatives to the required disclosures in *Riley* proposed by the Supreme Court are impractical and effectively eliminate regulation over a profession that, in the interest of consumer protection, needs to be regulated, the more refined disclosure requirements in the Indiana professional fundraiser registration act should pass the *Central Hudson* test. Certainly the Supreme Court has found that, whether in commercial speech situations or otherwise, appropriately tailored disclosure requirements can provide an effective means of regulating a profession.

III. Required Disclosures

In commercial speech situations, it has been observed that the profit motive contributes to the hardiness, or viability, of this kind of expression; therefore, it is less necessary to tolerate misleading statements for fear of violating the speaker's first amendment interests in free speech.[138] The profit motive may require that additional information is provided to insure that the commercial message is not deceptive.[139]

Even non-deceptive commercial speech may be restricted if the restriction is narrowly designed to achieve a substantial state interest.[140] The Court has pointed out that disclosure requirements applicable to advertisements mentioning an attorney's contingency fee arrangements serve the permissible goal of ensuring that potential clients are not misled regarding those terms.[141] A professional fundraiser engaged to solicit funds for private economic gain should be likewise compelled to disclose the terms upon which the donor's contribution will be distributed.

Federal courts at all levels have found disclosure requirements to be an acceptable restriction on the first amendment rights of professional fundraisers, even where the court has not identified the solicitor's activity as commercial in nature.[142] In the recent Supreme court fundraising cases, it was first recognized in *Village of Schaumburg v. Citizens for a Better Environment* that disclosures may assist in the furtherance of the state's interest in preventing fraud by informing the public of the manner in

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138. Virginia State Bd. of Pharmacy v. Virginia Citizens Consumer Council, 425 U.S. 748, 771-72 n.24 (1976).

139. *Id.*

140. Zauderer v. Office of Disciplinary Council, 471 U.S. 635, 637 (1985).

141. *In re* R.M.J., 455 U.S. 191, 207 (1983).

142. *See e.g.*, Bellotti v. Telco Communications, 650 F. Supp. 149 (D. Mass. 1986), *aff'd*, Shannon v. Telco Communications, 824 F.2d 150 (1st Cir. 1987); Heritage Publishing Co. v. Fishman, 634 F. Supp. 1489 (D. Minn. 1986).

which their contribution will be distributed.[143] At that time the Court realized the substantial interest in insuring that contribution decisions are more informed, "leaving to individual choice the decision whether to contribute to organizations that spend large amounts on salaries and administrative expenses."[144]

The Court in *Secretary of State of Maryland v. Joseph H. Munson Co.* reinforced this observation, finding that "concerns about unscrupulous professional fundraisers, like concerns about fraudulent charities, can and are accommodated directly, through disclosure and registration requirements. . . ."[145] Up to that time, it appears as if the Court, in even non-commercial speech cases, established a clear preference for required disclosures over broad prohibitions. In *Riley*, however, the Court found that, in the context of protected speech, the difference between compelled silence and compelled speech is without significance, finding that "the First Amendment guarantees 'freedom of speech,' a term necessarily comprising the decision of both what to say and what *not* to say."[146] The disclosure requirements seen by the Court in *Munson* and *Schaumburg* as permissible in non-commercial speech situations have now been rejected as a prophylactic, imprecise, and unduly burdensome rules.[147] In a situation dealing with commercial speech, however, a court should be able to make the distinction between prohibitions on speech and the statements of fact compelled by required disclosures.

In a case dealing with commercial speech, *Zauderer v. Office of Disciplinary Counsel*, the Supreme Court observed that there are "material differences between disclosure requirements and outright prohibitions on speech."[148] In requiring attorneys who advertise on a contingent-fee basis to disclose potential costs in the event of an unsuccessful lawsuit, the Court acknowledged that the state had not attempted to prevent attorneys from conveying information to potential clients; rather, it had only required them to provide more information than they would have been otherwise inclined to present.[149] Although this decision concerned the activities of attorney advertising, the Court in *Zauderer* indicated that the expression sought to be protected in the instant case was of a lesser caliber than those forms of expression accorded complete

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143. 444 U.S. 620, 638 (1980).

144. *Id.*

145. 467 U.S. 947, 967-68 n.16 (1984).

146. Riley v. Nat'l Fed'n of the Blind, 108 S. Ct. 2667, 2677 (1988) (emphasis in original).

147. *Id.* at 2679.

148. 471 U.S. 626, 650 (1985).

149. *Id.*

first amendment protection.[150] Where the state has not attempted to "prescribe what shall be orthodox in politics, nationalism, religion, or other matters of opinion or force citizens to confess by word or act their faith therein[,]"[151] disclosure requirements can provide a measure of reasonable restriction over the expression of a profession. Such is the case in the Indiana act, where the state has only prescribed the orthodox manner in which a solicitor, pursuing a "gainful occupation," may attempt to undertake what is essentially an economic transaction.

In another case involving advertisements by the legal profession, the Court in *Bates v. State Bar of Arizona*[152] observed that there was little worry that disclosure requirements would discourage protected speech when the speaker knows his product or service and has a commercial interest in its dissemination.[153] A court which identifies that professional solicitors are more knowledgeable about their service and have a commercial interest in their appeal for donations, should consequently frame their constitutional analysis of a disclosure requirement within the context of the commercial speech doctrine. In this context, the provisions of the Indiana statute requiring disclosures should be able to withstand a constitutional challenge. In the commercial speech approach, the provision appears to satisfy the standards set in *Central Hudson*. Further, federal courts have consistently found favor in the application of required disclosures over other restrictions imposed by the state in non-commercial speech cases.[154]

IV. Conclusion

In situations involving non-commercial speech, a court must apply the standard first amendment analysis: if the statute or ordinance is not narrowly tailored enough to serve the purported state's interest, the

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150. *Id.* at 651. *See generally* Miami Herald Publishing Co. v. Tornillo, 418 U.S. 241 (1974), in which the content of a newspaper editorial page was given complete first amendment protection, and the statute compelling the paper to print editorial replies was deemed unconstitutional.

151. *Zauderer*, 471 U.S. at 652 (quoting West Virginia State Bd. of Educ. v. Barnette, 319 U.S. 624, 642 (1943)).

152. 433 U.S. 350 (1977).

153. [A]ny concern that strict requirements for truthfulness will undesirably inhibit spontaneity seems inapplicable because commercial speech generally is calculated. Indeed, the public and private benefits from commercial speech derive from confidence in its accuracy and reliability. Thus, the leeway for untruthful or misleading expression that has been allowed in other contexts has little force in the commercial arena.

Id. at 383.

154. *See supra* text accompanying notes 142-45.

statute must be invalidated.[155] The Supreme Court in *Schaumburg* and *Munson* found that the solicitation for charitable donations was so intertwined with elements of non-commercial speech so as to render that expression "not purely commercial."[156] Therefore, the Court applied the standard first amendment analysis. In determining that charitable solicitations were not commercial speech, the Court in *Schaumburg* nonetheless observed that disclosure requirements would assist in preserving the substantial state's interest of preventing fraud.[157] In *Munson*, the Court noted that required disclosures are an example of measures which are "less intrusive" of first amendment rights.[158] The Supreme Court in *Riley* did not consider compelled statements of fact to be less intrusive of first amendment rights, finding no distinction between required disclosures and outright prohibitions on speech.[159] This apparent retreat from the aforementioned willingness of the Court to treat required disclosures as a viable alternative to outright prohibitions in the context of non-commercial speech may be traced, in part, to the concededly overinclusive information requirements in the disclosure.[160] Thus, the required disclosure stricken in *Riley* may have been too broadly tailored to serve the state's interest. In fact, the Court suggested that the requirement that the professional solicitor unambiguously disclose his or her professional status would be one example of a narrowly tailored requirement which would withstand first amendment scrutiny.[161] This provision is similar to one disclosure required under the Indiana statute,[162] yet the Supreme Court recognized that even this requirement may be open to misleading statements by the solicitor.[163]

Indiana's provision requiring disclosure of the compensation to be retained by the professional solicitor, or the amount actually forwarded to the charity, was unable to survive the recent challenge to its constitutionality. The district court's analysis of the statute, however, was made by applying the "pure" speech standard. Some factors would indicate that had the commercial speech doctrine been applied, the statute

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155. *See e.g.*, Riley v. National Fed'n of the Blind, 108 S. Ct. 2667, 2673-75 (1988).
156. *Schaumburg*, 444 U.S. at 632; *Munson*, 467 U.S. at 960.
157. *Schaumburg*, 444 U.S. at 638.
158. *Munson*, 467 U.S. at 961 n.9.
159. *Riley*, 108 S. Ct. at 2677.
160. *Id.* 108 S. Ct. at 2679 n.12.
161. *Id.* 108 S. Ct. at 2679 n.11.
162. The Indiana statute also requires the solicitor to disclose at the time of the solicitation: "(1) The charitable organization that is being represented; [and] (2) The fact that the person soliciting the contribution is, or is employed by, a professional fundraiser consultant or professional solicitor, and the fact that the professional fundraiser consultant or professional solicitor is compensated[.]" IND. CODE § 23-7-8-6(a) (1988).
163. *Riley*, 108 S. Ct. at 2679 n.11.

may have survived intact. For instance, the Supreme Court has left open the possibility that required disclosures, if narrowly tailored to serve a substantial state interest, are viable alternatives to more restrictive state regulations dealing with appeals for charitable contributions. The Indiana provision is certainly more narrowly tailored than the statute struck down in *Riley*,[164] and it does serve the substantial state interests of preventing fraud and promoting well-informed consumer decisions as to whether to contribute to organizations "that spend large amounts on [non-charitable] expenses."[165]

Given the nature of the for-profit business of professional fundraising, any court faced with the issue should first determine if the expression involved can be classified as commercial speech. The Supreme Court has distinguished between the protected activities engaged in by professionals and their commercial activities. It would be logical to allow that distinction to be made in the case of a professional solicitor. If the expression involved is characterized as commercial, a court must apply the more deferential commercial speech standards outlined in *Central Hudson*.[166] The Indiana provisions on required disclosures appear to comply with *Central Hudson*'s standards; therefore, the required disclosure provisions should not be declared to be unconstitutional. To apply different standards would allow the inconsistencies of recent Supreme Court decisions concerning commercial speech, charitable contributions, and required disclosures to thwart legitimate efforts by the state to regulate professional fundraisers for the sake of its citizens.

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164. *See supra* notes 73-76 and accompanying text.
165. Schaumburg v. Citizens for a Better Env't, 444 U.S. 620, 638 (1980).
166. *Central Hudson Gas & Elec. Corp.* 447 U.S. at 567-68 (1980).

The Impact of the Creation of the Court of Appeals for the Federal Circuit on the Availability of Preliminary Injunctive Relief Against Patent Infringement

The Court of Appeals for the Federal Circuit (CAFC) lowered the threshold standards required for the acquisition of preliminary injunctions against patent infringement.[1] The opinions of the CAFC reflect a belief that a strong patent system will encourage investment in research and development, that this investment is required to promote the reindustrialization of the United States, and that strengthening the system requires an increased availability of injunctions against infringement. However, since the creation of the CAFC, investment in technology has slowed.[2] The CAFC has been quick to preliminarily enjoin defendants from continuing activities aimed at developing technologies patented by others without first completing the comprehensive determinations of validity and infringement that would occur during a trial. This tendency of the court to "shoot first and ask questions later" creates a hardship for business. Furthermore, rather than supporting research and development efforts, this tendency has discouraged investment in the development of the technologies involved.

This Note contains the results of a study of patent cases, both at the district court level and at the appellate level, that have addressed

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1. H.H. Robertson Co. v. United Steel Deck, Inc., 820 F.2d 384, 387 (Fed. Cir. 1987) ("The standards applied to the grant of a preliminary injunction are no more nor less stringent in patent cases than in other areas of the law."); Atlas Powder Co. v. Ireco Chemicals, 773 F.2d 1230, 1233 (Fed. Cir. 1985):

> The burden upon the movant should be no different in a patent case than for other kinds of intellectual property, where, generally, only a "clear showing" is required. Requiring a "final adjudication," "full trial," or proof "beyond question" would support the issuance of a permanent injunction and nothing would remain to establish the liability of the accused infringer. That is not the situation before us. We are dealing with a provisional remedy which provides equitable *preliminary* relief.

Id. (Emphasis in the original); In re Certain Fluidized Supporting Apparatus & Components Thereof, 225 U.S.P.Q. 1211, 1213 n.7 (U.S.I.T.C. 1984) ("[T]he CAFC has moved patent cases from their peculiar position toward the mainstream of the jurisprudence of preliminary injunctions."). *See also* Foster, *The Preliminary Injunction - A "New" and Potent Weapon in Patent Litigation*, 68 J. PAT. & TRADEMARK OFF. SOC'Y 281 (1986); Metcalf, *Preliminary Injunctions and their Availability: How to Defend Against the Early Injunction*, 15 AIPLA Q.J. 104 (1987). *But cf.* Schwartz, *Injunctive Relief in Patent Cases*, 50 ALB. L. REV. 565 (1986) (noting the "misconception" that injunctions are granted more now than they were in the past in patent cases).

2. Clark and Malabre, *Eroding R & D: Slow Rise in Outlays for Research Imperils U.S. Competitive Edge*, Wall St. J., Nov. 16, 1988, at A1, col. 6.

motions for preliminary injunctions against patent infringement. The study shows that the success rate of these motions has been 52% since the creation of the CAFC, a rate that is statistically significantly different from the 36% success rate of the preceding twenty-nine years.

This Note will review the requirements for obtaining preliminary injunctions within the framework of the patent law, it will present and statistically analyze the CAFC's performance with respect to preliminary injunctions against infringement, and it will present an analysis of the written opinions of CAFC to provide insight into the application of the law of preliminary injunctions to patent infringement actions by CAFC.

I. The Patent Law

American patent law evolved from the English Statute of Monopolies[3] of 1623. Section VI of this anti-monopoly statute provided an exception for

> letters patents and grants of privilege of the sole working or making of any new manufactures within this realm, to the true and first inventor or inventors, of such manufactures, so as also they be not contrary to the law, nor mischievous to the state by raising prices of commodities at home or hurt of trade, or generally inconvenient.[4]

The drafters of the Statute of Monopolies recognized that establishing patent protection created a delicate statutory balance between encouraging technical innovation and creativity and restricting the competitive process.[5]

The United States Constitution, which grants Congress the power "[t]o promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their re-

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3. The Statute of Monopolies, 21 Jac. 1, ch. 3 (1623-4).

4. L. Wood, Patents and Antitrust Law 9 n.39 (1942). The Statute of Monopolies codified the existing common law, adding little to the law. *Id.* at 1-11. "[T]he first famous legal expression of the right of every subject to freedom of trade relieved of the restraint of patent monopoly" was Darcy v. Allein, 11 Coke 84 B. 77 Eng. Rep. 1260 (K.B. 1602), 1 Abbot Patent Cases 1, better known as the *Case of Monopolies*. *Id.* at 8, n.34 and accompanying text.

5. L. Schwartz, J. Flynn & H. First, Free Enterprise and Economic Organization: Antitrust 936, (6th ed. 1983):

> The Statute of Monopolies provided for letters patent to the "true and first inventor" so long as the patent "be not contrary to the law, nor mischievous to the state, by raising prices of commodities at home, or hurt of trade, or generally inconvenient." Thus the statute recognized the tension between patents as reward for invention and patents as restriction on the competitive process.

Id. (quoting from the Statute of Monopolies, 21 Jac. 1, ch. 3 (1623-4)).

spective writings and discoveries "authorizes patent protection."[6] A patent provides the holder with the right "to exclude others from making, using or selling" the patented invention in the United States for seventeen years.[7]

To obtain a patent, an inventor must file an application describing the invention with the Patent and Trademark Office (PTO).[8] A patent examiner determines whether the invention is entitled to patent protection.[9] The inventor receives a patent if the examiner concludes that the invention is entitled to patent protection.[10] The inventor whose application is rejected by the examiner may amend the application and request that the PTO examine it again.[11]

The dissatisfied applicant may appeal to the Board of Appeals of the PTO, which may reverse the decision of the examiner.[12] If the Board does not reverse the examiner's decision, the applicant may either appeal to the Court of Appeals for the Federal Circuit, or the applicant may bring a civil action in the District Court for the District of Columbia against the Commissioner of Patents seeking issuance of the patent.[13]

Processing a patent application is a lengthy procedure requiring about two years to complete.[14] About 60% of the applications submitted to the PTO are approved.[15] Roughly 0.2% of issued patents have their validity attacked in litigation, and between 50% and 60% of these patents are found to be invalid.[16]

II. Preliminary Injunctions

A preliminary injunction is "issued to protect plaintiff from irreparable injury and to preserve the court's power to render a meaningful

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6. U.S. Const. art. I, § 8, cl. 8.
7. 35 U.S.C. § 154 (1982).
8. 35 U.S.C. §§ 111-22 (1982).
9. 35 U.S.C. §§ 101-04 (1982).
10. 35 U.S.C. § 131 (1982).
11. 35 U.S.C. § 132 (1982).
12. 35 U.S.C. § 134 (1982).
13. 35 U.S.C. §§ 141-45 (1982); 28 U.S.C. §§ 1295 (a)(4)(A), 1254 (1982).
14. In 1987 the PTO required, on the average, approximately 22 months to process an application. 1989 OMB Budget of the United States Government app. at I-F20. It has been estimated that between 6 months and 4 years are required to process an application, depending on its complexity. Schellin, *The Innovating Process*, 8 AIPLA Q.J. 155, 168 (1980).
15. 1989 OMB Budget of the United States Government app. at I-F20. The PTO's annual report indicated that in 1986 and 1987 62% and 63% of the applications resulted in issued patents; the report estimated 65% for 1988 and 1989. *Id. See also* Adams, *The Court of Appeals for the Federal Circuit: More than a National Patent Court*, 49 Mo. L. Rev. 43, 52 (1984); Koenig, *Patent Invalidity: A Statistical and Substantive Analysis*, 3-14 to -15 & n.6 and 4-4 to -5 (1980).
16. Adams, *supra* note 15, at 54.

decision after a trial on the merits."[17] Rule 65 of the Federal Rules of Civil Procedure authorizes federal courts to grant motions for preliminary injunctions.[18] The Rules are silent as to the conditions or circumstances that must be met to justify the grant of such motions. This determination is left to the discretion of the trial court[19] and has resulted in a fragmented and specialized common law.[20]

A. Preliminary Injunctions Generally

A preliminary injunction issued before a trial on the merits is an extraordinary remedy that carries the risk of imposing an unwarranted burden on a defendant.[21] Rule 65 (a)(2) requires that a hearing be held before a preliminary injunction may be issued.[22]

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17. 11 C. WRIGHT, A. MILLER & M. KANE, Federal Practice and Procedure § 2947, at 423 (1973 & Supp. 1988) [hereinafter WRIGHT & MILLER].

18. FED R. CIV. P. 65. Sub-sections (a) and (d) state:

> (a) Preliminary injunction.
>
> *(1) Notice.* No preliminary injunction shall be issued without notice to the adverse party.
>
> *(2) Consolidation of hearing with trial on merits.* Before or after the commencement of the hearing of an application for a preliminary injunction, the court may order the trial of the action on the merits to be advanced and consolidated with the hearing of the application. Even when this consolidation is not ordered, any evidence received upon an application for a preliminary injunction which would be admissible upon the trial on the merits becomes part of the record on the trial and need not be repeated upon the trial. This subdivision (a)(2) shall be so construed and applied as to save to the parties any rights they may have to trial by jury.
>
> . . .
>
> (d) Form and scope of injunction or restraining order. Every order granting an injunction and every restraining order shall set forth the reasons for its issuance; shall be specific in terms; shall describe in reasonable detail, and not by reference to the complaint or other document, the act or acts sought to be restrained; and is binding only upon the parties to the action, their officers, agents, servants, employees, and attorneys, and upon those persons in active concert or participation in them who receive actual notice of the order by personal service or otherwise.

FED R. CIV. P. 65. The comments that accompany this rule are silent as to these sections. There is no indication as to the circumstances under which a preliminary injunction is appropriate.

19. 35 U.S.C. § 283 ("The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable."). *See generally* WRIGHT & MILLER, *supra* note 17.

20. *See* Leubsdorf, *The Standard for Preliminary Injunctions*, 91 HARV. L. REV. 525, 525 (1978).

21. WRIGHT & MILLER, *supra* note 17, at 424.

22. FED. R. CIV. P. 65(a).

Although a preliminary injunction is a form of interlocutory relief, Congress found that the safeguard of immediate appellate review of these decisions was required to reduce the risk of potentially harsh consequences stemming from the grant of an injunction prior to a trial on the merits.[23] The standard for appellate review of decisions on motions for preliminary injunctive relief is whether the trial court has abused its discretion.[24] It may also need to be determined on appeal whether the trial court committed an error of law, and the trial court's underlying findings of fact are subject to the clearly erroneous standard of Rule 52(a).[25]

The formulations for deciding whether to grant a preliminary injunction vary from circuit to circuit.[26] The most commonly evaluated factors include (1) the threat of irreparable harm to the plaintiff if the injunction is not granted, (2) the balance between the potential harm to the plaintiff if the injunction is not granted and the potential harm to the defendant if the injunction is granted, (3) the public interest, and (4) the likelihood that the plaintiff will prevail at the trial on the merits.[27]

The threat of irreparable harm carries more weight than the other factors.[28] The movant must show that harm will occur before a trial

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23. *See* 28 U.S.C. § 1292 (a)(1) (1982). The 1982 enactment of the Federal Courts Improvement Act (FICA) granted exclusive jurisdiction to the Court of Appeals for the Federal Circuit in patent infringement actions. Pub. L. No. 97-164, § 125, 96 Stat. 36 (codified at 28 U.S.C. §§ 1292 (c)(1)(1982), 1295 (1982)).

Wright & Miller noted that "[A] preliminary injunction is an extraordinary and drastic remedy, one that should not be granted unless the movant, by a clear showing, carries the burden of persuasion." WRIGHT & MILLER, *supra* note 17, at 428-29. Moore added that:

> An injunction is a powerful and generally effective remedy. This is due in large measure to the court's power to punish disobedience by civil contempt, which is remedial in nature and designed to coerce obedience and to compensate the complainant for losses sustained; and, in a proper case, by criminal contempt whose purpose is to vindicate the court's authority and dignity.

7 J. MOORE, J. LUCAS & K. SINCLAIR, JR., MOORE'S FEDERAL PRACTICE § 65.02[3] at 65-19 (2d ed. 1989).

24. Smith Int'l., Inc. v. Hughes Tool Co., 718 F.2d 1573, 1579 (Fed. Cir. 1983) ("[T]he scope of review of a district court's decision involving the denial of an injunction is narrow. One denied a preliminary injunction must meet the heavy burden of showing that the district court abused its discretion, committed an error of law, or seriously misjudged the evidence."). *See generally* J. MOORE, *supra* note 23, at 65-70 to 65-77.

25. FED. R. CIV. P. 52(a). *See* Eli Lilly & Co. v. Premo Pharm. Labs., Inc., 630 F.2d 120, 136 (3rd. Cir. 1980) ("[W]e must affirm the order of the district court unless the court abused its discretion, committed an error of law, or seriously misjudged the evidence."); *see also* J. MOORE, *supra* note 23, at 65-78.

26. *See* Leubsdorf, *supra* note 20, at 525-26; J. MOORE, *supra* note 23, at 65-32 to 65-54 (providing a detailed analysis by circuit).

27. *E.g.*, American Can Co. v. Mansukhami, 742 F.2d 314, 325 (7th Cir. 1984).

28. WRIGHT & MILLER, *supra* note 17, at 431 and 436-37.

on the merits can be completed.[29] The movant must also show that there is no adequate alternate remedy at law.[30] Speculative injury and economic loss are normally not sufficiently harmful for a court to find irreparable harm,[31] though economic losses that threaten to end a movant's business may satisfy this requirement.[32]

The analysis of the balance between the potential harm to the plaintiff if the injunction does not issue and the potential harm to the defendant if the injunction does issue requires the consideration of: (1) whether the grant of the preliminary injunction would provide the plaintiff with all or most of the relief that plaintiff would be entitled to if successful after a trial on the merits,[33] and (2) whether the defendant is being ordered to affirmatively act.[34] The presence of either of these factors weighs against the issuance of preliminary relief.[35] The purpose of a

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29. Roper Corp. v. Litton Sys., Inc., 757 F.2d 1266, 1273 (Fed. Cir. 1985) (The court did not grant the injunction, stating, "[T]here is nothing in the record establishing . . . an *immediate* threat. . . . Thus, the *status quo* is maintained without injunctive relief *pendente lite*.") (emphasis in original).

30. Lametti & Sons, Inc. v. City of Davenport, Iowa, 432 F. Supp. 713, 1714-15 (S.D. Iowa 1975) (if contractor could demonstrate the city's improper acceptance of another bid, it would have an adequate remedy at law, and therefore could not enjoin the city from accepting the allegedly improper bid).

31. As to speculative injury, *see Roper*, 757 F.2d at 1273 (Roper has demonstrated mere apprehension of potential future infringement, primarily from the possibility of Litton's sale of its oven technology to a company that might infringe. Without more, such fears cannot justify the issuance of preliminary equitable relief.); Chemical Eng'g Corp. v. Marlo, Inc., 754 F.2d 331, 334 (Fed. Cir. 1984) ("No authority anywhere supports the notion that a preliminary injunction against infringement may issue in response to rumors of a threat of infringement.").

For cases stating that economic loss is normally not sufficient to preliminarily enjoin a party, see Lametti & Sons, Inc. v. City of Davenport, Iowa, 432 F. Supp. 713, (D.C. Iowa 1975) (contractor was denied a preliminary injunction enjoining the city from accepting an allegedly improper bid because it could recover the cost of the preparation of its bid if successful on the merits); A.L.K. Corp. v. Columbia Pictures Indus., Inc., 440 F.2d 761 (3d Cir. 1971) (a theatre owner was denied a preliminary injunction when he sued a film distributor for performance of a contract to provide first run movies because the court found that its potential losses were readily measurable).

32. Semmes Motors, Inc. v. Ford Motor Co., 429 F.2d 1197, 1205, (2d Cir. 1970) ("[T]he right to continue a business . . . is not measurable entirely in monetary terms. . . ."); *but cf.* Tele-Controls, Inc. v. Ford Indus., Inc., 388 F.2d 48, (7th Cir. 1967) (the fact that plaintiff included lost dollar amounts in the complaint demonstrated that the loss of plaintiff's dealership could be compensated with damages and that equitable relief was not required).

33. Knapp v. Walden, 367 F. Supp. 385, 388 (S.D.N.Y. 1973); Bailey v. Romney, 359 F. Supp. 596, 600 (D.D.C. 1972) (the burden on the plaintiff to show the likelihood of success on the merits increases as the preliminary relief sought begins to resemble the relief expected after a trial on the merits).

34. Wetzel v. Edwards, 635 F.2d 283, 286 (4th Cir. 1980).

35. Bricklayers, Masons, Marble and Tile Setters, Protective and Benevolent Union

preliminary injunction is to maintain the *status quo* and to protect the court's ability to render a meaningful decision for either party.[36] Courts have been reluctant to force parties to act to protect the court's ability to render a meaningful decision when this action would disrupt the *status quo*.[37]

The CAFC warned that *status quo* does not mean "the last uncontested status which preceded the pending controversy."[38] A state of affairs that permits the alleged injury to continue at its present rate, requiring only that this rate is not exceeded, is not maintaining the *status quo*. The CAFC held that maintaining the *status quo* would require that the trespasses stop "cold turkey."[39]

A court will consider the public interest when faced with a motion for preliminary injunctive relief. This allows it to address policy issues that bear on whether the motion should be granted.[40] The public interest may be defined in a statute,[41] and the importance of this factor will grow when government policy or regulations are brought into issue.[42]

The likelihood that a movant will succeed on the merits is considered because the propriety of issuing a preliminary injunction is based on the validity of the movant's claim.[43] In most jurisdictions the movant must demonstrate a reasonable probability of success.[44] The degree of likelihood of success is not dispositive of the motion. It must be balanced with the comparative injuries of the parties, creating a sliding scale for the importance of this factor based on the injunction's potential impact and the need for the injunction.[45]

No. 7 of Neb. v. Luedeg Const. Co., 346 F. Supp. 558, 561 (D. Neb. 1972). *See generally* WRIGHT & MILLER, *supra* note 17, at 329-48.

36. Atlas Powder Co. v. Ireco Chem, 773 F. 2d 1230, 1232 (Fed. Cir. 1985) ("[A] preliminary injunction preserves the status quo if it prevents future trespasses but does not undertake to assess the pecuniary or other consequences of past trespasses.").

37. La Chemise Lacoste v. General Mills, Inc., 487 F.2d 312 (3d Cir. 1973).

38. *Atlas*, 773 F.2d at 1231.

39. *Id.* at 1232.

40. *In re* Uranium Antitrust Litig, 617 F.2d 1248 (7th Cir. 1980) (enjoining defendants in a price fixing case from removing their assets from the United States supported the public interest in having effective antitrust laws).

41. United States v. Nutrition Serv., Inc., 227 F. Supp. 375 (W.D. Pa. 1965). The Food, Drug, and Cosmetic Act defined the public interest.

42. Spiegel v. City of Houston, 636 F.2d 997, 1002 (5th Cir. 1981) (all requirements for a preliminary injunction were met, but the injunction against certain police methods was denied because it would have hindered good faith law enforcement, there by disserving the public interest).

43. Delaware & Hudson Ry. Co. v. United Transp. Union, 450 F.2d 603, 619 (D.C. Cir. 1971) (The weighing of the factors that determine the outcome of a motion for preliminary injunctive relief "depend on underlying premises as to the substantive law defining legal rights.").

44. WRIGHT & MILLER, *supra* note 17, at 329-48.

45. Hybritech Inc. v. Abbot Labs., 849 F.2d 1446, 1451 (Fed. Cir. 1988). While

There are rhetorical differences among the jurisdictions with respect to the standards used by each, but these differences do not seem to carry substantive significance.[46]

> The standard for the exercise of this immense power suffers from inconsistent formulations. Some authorities do no more than list relevant factors - typically the plaintiff's likelihood of success on the merits, the prospect of irreparable harm, the comparative hardship to the parties of granting or denying relief, and sometimes the impact of the relief on the public interest. Others state combinations of these factors that will warrant relief. Still others lay down a four-fold test, whose folds differ from one formulation to the next. Irreparable injury may or may not be mentioned. Sometimes the injunction must not disserve the public interest, sometimes it must serve the public interest, and sometimes only the equities of the parties count. . . .
>
> The dizzying diversity of formulations, unaccompanied by an explanation for choosing one instead of another, strongly suggests that the phrases used by the courts have little impact on the result in particular cases.[47]

The difficulty in gauging the impact of the rhetorical differences between jurisdictions is confounded by additional requirements that must be established for various substantive areas of the law. Historically, additional requirements for acquiring a preliminary injunction under the patent law have made it difficult to acquire preliminary injunctive relief in these cases.

B. Preliminary Injunctions Against Patent Infringement

A preliminary injunction is a potent weapon for enforcing a patent holder's monopoly. To obtain a preliminary injunction a movant must show the threat of irreparable harm, that the balance of potential harms weighs against him, that permitting the injunction is in the public interest, and that he is likely to succeed on the merits. In a patent infringement

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discussing the factors that are considered when reviewing a decision to grant or deny a preliminary injunction, the court noted that "[t]hese factors, taken individually, are not dispositive; rather, the district court must weigh and measure each factor against the other factors and against the form, and magnitude of the relief requested." *See also* Packard Instrument Co. v. ANS, Inc., 416 F.2d 943, 945 (2d Cir. 1969).

46. Leubsdorf, *supra* note 20. *See also* WRIGHT & MILLER, *supra* note 17, at 451-452. For a detailed discussion of the formulations used in each circuit, see Moore, *supra* note 25, at 65-32 to 65-54. For a general presentation of the relevant factors *see* MOORE, *supra* note 25, at 65-54 to 65-70.

47. Leubsdorf, *supra* note 20, at 525-26.

case, the movant must also show his title in the patent, the validity of the patent, and the infringement of the patent.[48] The required showing of the movant's likelihood of success on the merits is particularly strong when the claims of infringement are disputed, though often these disputes cannot be properly resolved without a full trial on the merits.[49]

Irreparable harm is presumed in patent cases when the strength of the showing of the likelihood of success on the issues of validity and infringement is considerable.[50] Also, the analyses of the public interest and the balance of harms normally include the effect that the decision will have on the strength and integrity of the patent system.[51]

1. Validity and Infringement.—By statute patents are presumed to be valid.[52] But invalidity may be raised as a defense to a claim of infringement. Traditionally, plaintiffs seeking preliminary injunctions in patent infringement cases were required to establish the elements of validity and infringement beyond question.[53] The CAFC relaxed this requirement by holding that only a clear showing of validity and infringement is necessary.[54]

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48. Jenn-Air Corp. v. Modern Maid Co., 499 F. Supp. 320, 322 (D. Del. 1980).

> While the requisite showing on the merits in other types of cases is the probability of success, the party seeking preliminarily to enjoin infringement must demonstrate "beyond question" that the patent is valid, that the patent is infringed and that the party seeking such relief has valid title to the patent. In other respects, the standard for granting a preliminary injunction against infringement in a patent suit is the same as that applicable to other types of cases.

Id. at 322 (citations omitted). *See also* 5 D. CHISUM, PATENTS, A TREATISE ON THE LAW OF PATENTABILITY, VALIDITY AND INFRINGEMENT, § 20.04 (1987 & Supp. 1988).

49. D. CHISUM, *supra* note 48, at 20-288 to 20-289.

50. Roper Corp. v. Litton Systems, Inc., 757 F.2d 1266, 1271 (Fed. Cir. 1985) (In order to raise the presumption of irreparable harm, the showing of the likelihood of success on the merits "must be not merely a reasonable but a strong showing indeed.").

51. Atlas Powder Co. V. Ireco Chem., 773 F.2d 1230, 1234 (Fed. Cir. 1985) (no abuse of discretion when the district court determined that possible supply problems for the mining industry, the loss of 66% of Ireco's sales, and layoff of 200 people, all expected to be caused by the grant of the preliminary injunction, were not as important as maintaining Atlas' patent rights).

52. 35 U.S.C. § 282 (1982 & Supp. 1986).

53. *Jenn-Air*, 499 F. Supp. at 322 ("[T]he party seeking preliminarily to enjoin infringement must demonstrate 'beyond question' that the patent is valid, that the patent is infringed, and that the party seeking such relief has valid title to the patent."). *See also* D. CHISUM, *supra* note 48, at 20-276 to -278.

54. *Atlas Powder*, 773 F.2d at 1233:

> The burden upon the movant should be no different in a patent case than for other kinds of intellectual property, where, generally, only a "clear showing" is required. Requiring a "final adjudication," "full trial," or proof "beyond question" would support the issuance of a permanent injunction and nothing

The statutory presumption of patent validity[55] gained theoretical legitimacy in 1836 with the creation of the Patent Office and an examination procedure.[56] Still, it has been advanced that "[t]he presumption of validity is too slim a reed to support a preliminary injunction in a patent case."[57] Judge Learned Hand provided two theories to justify being wary of the presumption of a patent's validity. The first is that a patent is not even *prima facie* valid until a judge, apart from an administrative official, has adjudged its validity.[58] The second is that "[e]xaminers have neither the time nor the assistance to exhaust the prior art; nothing is more common in a suit for infringement than to find that all the important references are turned up for the first time by the industry of a defendant whose interest animates his search."[59]

The CAFC has noted that the burden is always on the movant to prove that it deserves injunctive relief, but the burden of proving invalidity is with the party attacking validity.[60]

2. Irreparable Harm and the Public Interest.—Irreparable harm must be proven when a preliminary injunction is sought in a patent infringement case, but the circuit courts of appeals were inconsistent in the level of the showing that they required.[61] In response, the CAFC

> would remain to establish the liability of the accused infringer. That is not the situation before us. We are dealing with a provisional remedy which provides equitable *preliminary* relief. Thus, when a patentee "clearly shows" that his patent is valid and infringed, a court may, after a balance of all of the competing equities, preliminarily enjoin another from violating the rights secured by the patent.

(emphasis in the original) (citations omitted). *See also* H.H. Robertson, Co. v. United Steel Deck, Inc., 820 F.2d 384, 387 (Fed. Cir. 1987) ("The standards applied to the grant of a preliminary injunction are no more nor less stringent in patent cases than in other areas of the law.").

55. 35 U.S.C. § 282 (1982 and Supp. 1986). *See also* Radio Corp. of Am. v. Radio Eng'g Lab., Inc., 293 U.S. 1 (1934) ("A patent regularly issued . . . is presumed to be valid until the presumption has been overcome by convincing evidence of error.").

56. D. Chisum, *supra* note 48, at 20-270.

57. Mayview Corp. v. Rodstein, 480 F.2d 714, 718 (9th Cir. 1973). *See also* T. J. Smith and Nephew Ltd. v. Consolidated Medical Equip., Inc., 821 F.2d 646, 648 (Fed. Cir. 1987) (presumption of validity "is procedural, not substantive"); *H. H. Robertson*, 820 F.2d at 388 (Fed. Cir. 1986) ("[T]he burden is always on the movant to demonstrate entitlement to preliminary relief. Such entitlement, however, is determined in the context of the presumptions and burdens that would inhere at trial on the merits.").

58. Rosenberg v. Groov-Pin Corp., 81 F.2d 46, 47 (2d Cir. 1936).

59. *Id.* Judge Hand added that "[i]t is a reasonable caution not to tie the hands of a whole art until there is at least the added assurance which comes from such an incentive." *Id.*

60. *H. H. Robertson*, 820 F.2d at 387.

61. *Compare* Nuclear-Chicago Corp. v. Nuclear Data, Inc., 465 F.2d 428, 429 n.1 (7th Cir. 1972) ("Proof of irreparable harm is always a requirement for issuance of a

ruled that if both validity and infringement are "clearly established," irreparable harm is to be presumed.[62] The CAFC explicitly ruled that to clearly establish validity does not require a prior adjudication of the patent.[63]

When considering public policy, the CAFC held that the plaintiff must demonstrate that the granting of the injunction will not disserve the public interest.[64] Prior to the CAFC's ruling, the jurisdictions were split between this standard and a more stringent standard requiring that movants show that the injunction would serve the public interest.[65]

The public interest seldom plays a substantial role in the consideration of preliminary injunctions in patent infringement actions, though occasionally it is the basis for the decision. In *Scripps Clinic and Research Foundation v. Genentech*,[66] after finding that Genentech infringed Scripps' patent, the court noted that there were two advantages for hemophiliacs from Genentech's recombinant Factor VIII:C as compared to plasma-derived Factor VIII:C. The recombinant Factor VIII:C was unlikely to contain infectious agents such as the AIDS virus, and there was a possibility of an economic advantage to the recombinant Factor VIII:C. The court stated that the possibility of the occurrance of these advantages was sufficient to block the preliminary injunction and to give Genentech an opportunity to present its case for invalidity of the patent.[67]

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preliminary injunction.") *with* Teledyne Indus., Inc. v. Windmere Prods., Inc. 433 F. Supp. 710, 40 (S.D. Fla. 1977) (permitting infringement during the course of the litigation would be to force patentee to accept a licensee for that period).

62. Smith Int'l, Inc. v. Hughes Tool Co., 718 F.2d 1573, 1581 (Fed. Cir. 1983) ("The very nature of the patent right is the right to exclude others. Once the patentee's patents have been held to be valid and infringed, he should be entitled to the full enjoyment and protection of his patent rights.").

63. *H. H. Robertson*, 820 F.2d at 388 (prior adjudication of a patent's validity against a defendant not a party to the current action merely provides evidence, to which substantial weight may be given, of the validity of the patent claims litigated during the prior adjudication).

64. Hybritech, Inc. v. Abbot Labs., 849 F.2d 1446, 1448 (Fed. Cir. 1988) ("[T]he focus of the district court's public interest analysis should be whether there exists some critical public interest that would be injured by the grant of preliminary relief.").

65. D. Chisum, *supra* note 48, at 20-296.

66. 666 F. Supp. 1379 (N.D. Cal. 1987).

67. *Id. See also* Eli Lilly and Co. v. Premo Pharm. Labs., Inc., 630 F.2d 120 (3d Cir. 1980). This case presented a more typical treatment of the public policy question in patent infringement preliminary injunction decisions:

> In enacting patent laws, Congress recognized that it is necessary to grant temporary monopolies on inventions in order to induce those skilled in the "useful arts" to expend the time and money necessary to research and develop new products and to induce them "to bring forth new knowledge," . . . sacrificing short-term price competition in order to foster creativity and improvement of products in [the] long run.

III. The Court of Appeals for the Federal Circuit

A. The Need for the CAFC

Patent law inconsistencies that evolved between the circuits prior to the creation of the CAFC undermined the constitutional objective of the patent law "to promote the progress of science . . . ."[68] Businesses found it to be risky to develop technologies that were not uniformly protected. They found it difficult to plan the use of technologies in the face of protections and restrictions which were uncertain and that varied from jurisdiction to jurisdiction.[69] According to Chief Judge Howard T. Markey while he was Chief Judge of the Court of Customs and Patent Appeals:

> A major problem addressed and solved in H.R. 2405 [the House version of the Federal Courts Improvement Act (FCIA), the act that spawned the CAFC[70]] is the non-uniformity in interpretation and application of the patent laws of our Nation, and the unseemly and costly forum shopping facilitated thereby. . . . Indeed, the report accompanying H.R. 3806 in the 96th Congress described the problem: "Patent litigation long has been identified as a problem area, characterized by undue forum shopping and unsettling inconsistency in adjudications."
>
> . . . .
>
> The need for a law of patents on which our people may rely is even greater when our nation is faced with a need to reindustrialize, to improve a productivity growth rate now approaching zero, to reverse a falling status in international trade, and to encourage the investment in innovative products and new

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. . .

> "Viewed in these terms, the patent grant . . . functions as a means of raising the expected return to be gained from basic drug research sufficiently to overcome the investor firm's risk aversion and induce it to invest additional funds in research instead of alternative investment opportunities such as production process improvement programs, advertising, increased customer service, or the like."

Id. at 137 (quoting Note, *Standards of Obviousness and the Patentability of Chemical Compounds*, 87 Harv. L. Rev. 607, 620 n.54 (1974).

68. U.S. Const. art I, § 8, cl. 8.

69. Sward & Page, *The Federal Courts Improvement Act: A Practitioner's Perspective*, 33 Am. U. L. Rev. 385, 387 (1984). According to Sward and Page: "More detrimental than the battles over the forum, however, was that the different interpretations of the patent law discouraged innovation and made business planning difficult and investment uncertain." *Id.* at 387.

70. The Federal Courts Improvement Act of 1982 (FCIA), enacted Pub. L. No. 97-164, § 125, 96 Stat. 36 (codified at 28 U.S.C. §§ 1292 (c)(1)(1982), 1295 (1982)).

technology so necessary to achieve those goals.

. . . .

The chairman may be aware that 10 years ago the United States was No. 1 in international trade with 24 percent. Two years ago, the last year for which I have seen figures, we were No. 6 with 14 percent. And that trend must be reversed. It has always rested on innovation, advances in technology. We need to reverse that falling status in international trade.[71]

Compared to Judge Markey's vision of a stronger industrialized America energized by a strong patent system, Congress sought only two modest improvements from the creation of the CAFC: (1) An improvement in patent law uniformity as a result of one court hearing appeals from patent cases,[72] and (2) a reduction of the workload in the other circuit courts of appeals. "Although patent cases are a small percentage of the cases that the regional courts of appeal handle, they are particularly complex, difficult, and time-consuming."[73] Congress designed the CAFC to meet these goals.

B. The Court

The CAFC is an intermediate appellate court of restricted subject matter jurisdiction. Congress assigned to it the exclusive jurisdiction of appeals from the federal district courts throughout the United States in patent cases.[74] "The Federal Circuit . . . is a compromise between specialization, which can produce uniformity, and generalization, which can prevent stagnation. . . ."[75]

To balance these interests, Congress created a commission chaired by Senator Roman Hruska to examine the federal appellate system.[76] The inconsistency of the patent law among the circuits was one aspect of the inquiry.[77] The commission advocated against creating a specialized court.[78] It feared that judges on a specialized court would acquire "'tunnel

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71. *Court of Appeals for the Federal Circuit, 1981: Hearings on H.R. 2405 Before the Subcomm. on Courts, Civil Liberties, and the Administration of Justice of the House Comm. on the Judiciary*, 97th Cong., 1st Sess. 6 (1981) (statement of Howard T. Markey, Chief Judge of the Court of Customs and Patent Appeals).

72. Sward & Page, *supra* note 69, at 388.

73. *Id.*

74. Adams, *supra* note 15, at 44.

75. Sward & Page, *supra* note 69, at 387.

76. *Commission on Revision of the Federal Court Appellate System, Structure and Internal Procedures: Recommendations for Change*, *reported in* 67 F.R.D. 195, 234 (1975) (Senator Roman L. Hruska, Chairman) [hereinafter *Hruska Report*].

77. *Id.*

78. *Id.*

vision,' seeing the cases in a narrow perspective without the insights stemming from broad exposure to legal problems in a variety of fields.''[79] The commission also argued that a specialized court would promote an increase in judicial activism in the area of specialization,[80] that if only one court was to pass on an issue its written opinions would contain only legal conclusions with little analysis,[81] that the dilution of regional influences would be detrimental,[82] that the loss of breadth of experience suffered both by judges on the specialized court and by judges that would no longer be hearing cases within the area of specialization would be felt,[83] and that a specialized court would not attract objective, quality judges.[84]

During the CAFC's brief history it has gained the reputation of being biased toward plaintiffs with a tendency to adopt pro-patent positions.[85] During the court's first three years of operation sixty-nine section 103 cases were appealed to the CAFC. The district courts found 30% of these patents to be valid,[86] while 54% of these were found to be valid by the CAFC on appeal.[87] Additionally, district courts found infringement in 60% of their seventy-five appealed decisions, while the CAFC found infringement in only 52% of these cases.[88]

At least one author has used this data to conclude that the CAFC has shown no bias for plaintiffs. Using the section 103 holdings as an example, the author reasoned that the court has approached neutrality because it has found patents to be valid in about half of the cases it has decided.[89] The implicit argument is as follows: (1) Half of the parties in patent litigation are defendants, half of them are plaintiffs. (2) Half of the parties to patent litigation will be arguing that the patent in question is valid, half will be arguing that it is invalid. (3) A neutral court will favor neither plaintiffs nor defendants. (4) A neutral court will find for plaintiffs half the time and defendants half the time. (5)

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79. *Id.* at 234-35.
80. *Id.* at 235.
81. *Id.*
82. *Id.*
83. *Id.*
84. *Id.*
85. *Protection for High Technology Reviewed at Patent Law Conference*, 30 PAT. TRADEMARK & COPYRIGHT J. (BNA) No. 753, 682-683 (Oct. 31, 1985). Comments made by one speaker at this conference suggested that the CAFC was holding 60-70% of patent claims valid and 80-90% of patents infringed.
86. Dunner, *Introduction (Statistics on Federal Circuit Patent Cases)*, 13 AIPLA Q.J. 185, 186 (1985).
87. *Id.*
88. *Id.*
89. *Id.*

The CAFC has found 54% of the patents that it has adjudged to be valid. (6) Therefore, "the percentage of validity holdings at the Federal Circuit level is close enough to 50% to suggest no bias in either direction."[90]

However, step (4) in the argument is faulty. To explain why, it must first be accepted that some percentage of issued patents are invalid. Of course, validity is dependent upon the subjective determinations of the fact finder and the completeness of the search for prior art, but theoretically only a certain percentage of patents that have been issued meet the threshold requirements for patent protection and are truly valid. Conversely, a certain percentage of the issued patents do not meet the threshold requirements. These patents were granted because the patent examiner had imperfect or incomplete information when it was decided that the invention deserved patent protection. These inventions are unworthy of the patent protections given to them and are not truly valid.

Hypothetically, if 99% of the patents issued are valid it is not reasonable to expect that only half of the section 103 holdings will result in a finding of validity. If only 1% of the patents issued are valid, it is not reasonable to expect that more than a few of the section 103 holdings will result in a finding of validity.

Nobody knows how many of the patents issued are truly valid. It is reasonable to assume that most patents that are infringed or attacked in court are chosen because the infringer/attacker believes that the patent does not meet the threshold requirements for patent protection and is invalid. The number of section 103 holdings in favor of validity will be lower if only the weaker patents are litigated and the unquestionably valid patents are not litigated.

Step (4) of the argument above is faulty because there is no basis for assuming that half of the defendants are right and that half of the plaintiffs are right. The data as presented above provides no framework for gauging the CAFC's performance, it provides no baseline to judge against, and it provides absolutely no basis for claiming that the CAFC is approaching neutrality because it finds for plaintiffs only half of the time.

However, a baseline has been established that will provide an indication of the Federal Circuit's attitude toward preliminary injunctions against patent infringement.[91] The question of whether the creation of the CAFC has caused a shift in the availability of patent preliminary injunctions is addressed below.

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90. *Id.*

91. Dorr & Duft, *Patent Preliminary Injunctive Relief*, 60 J. PAT. OFF. SOC'Y 597 (1983).

IV. The Court of Appeals for the Federal Circuit and Preliminary Injunctions Against Infringement

A. The Statistical Test[92]

Hypothesis testing is a statistical technique for comparing sets of data to determine whether the differences between them are due merely to the expected random data fluctuations or if the differences are significant and due to some assignable cause.[93] Random differences in the number of preliminary injunctions against infringement granted from year to year occur whether or not changes are made to the patent system. Possible assignable causes for detected non-random changes from year to year could include precedent generated between the years considered, different philosophies of judges ruling on injunctions, and changes in the number of valid patents for which injunctions are sought.

The inquiry made in this Note is whether the increase in the percentage of motions for preliminary injunctions that are granted in patent infringement cases since the creation of the CAFC is due to the expected random variation or if there has indeed been a change in the availability of these injunctions.

The calculations performed as part of a hypothesis test provide a probability that an observed result is due merely to random variations in the data.[94] Traditionally, researchers in the social sciences are willing to declare that a difference is significant if there is a 5% or smaller chance that the difference is due merely to randomness.[95] Another way to phrase this is that researchers are traditionally willing to declare that a difference between two sets of data is significant - that it is real - if there is a 95% or greater probability that the difference is not due to random chance.

Statistical data comes in many forms.[96] The form of the data is important in defining the test statistic that is appropriate for hypothesis

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92. *See generally* D. L. Harnett, Statistical Methods, (3d ed. 1982) (for a discussion of hypothesis testing, non-parametric statistics, and a discussion of the statistical test to be used herein); J. M. Juran & F. M. Gryna, Jr., Quality Planning and Analysis, chs. 3-4 (2d ed. 1980) (for a brief statistical background); B. Ostle, C. R. Hicks, G. W. McElrath, Applied Statistics in Quality Control (1985) (for an in-depth discussion of hypothesis testing).

93. Harnett, *supra* note 92, at 345-64.

94. *Id.* at 360-62.

95. *Id.* at 393-97.

96. Harnett, *supra* note 92, at 693-96. Harnett explained: "The four major levels of measurement are represented by nominal, ordinal, interval, and ratio scales." A nominal scale is based on a categorization of objects into representative qualitative groups. There is no quantitative significance to the classifications. The data dealt with in this article is

testing.[97] In the analysis herein, the comparison made is the number of preliminary injunctions granted in one time period to some expected number of preliminary injunctions. The number of preliminary injunctions that were expected is determined from past data.[98] The appropriate test statistic for testing hypotheses with this type of data is the chi-square test statistic. "The chi-square variable is used . . . to test how closely a set of observed frequencies corresponds to a given set of frequencies."[99]

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nominal, a grant of a preliminary injunction is not quantifiable; it is not greater than or less than a denial. Grants and denials are merely two different possible outcomes.

Another way to classify data is as parametric or non-parametric data. Parametric data is that which will allow an observer to calculate means and standard deviations. When performing hypothesis tests on parametric data, there are certain assumptions about the data that must hold true. Among these assumptions is that the data must be normally distributed. With small data sets, like the data considered in this article, this would represent a critical flaw. Since a non-parametric test, the "chi-square" test, will be used in this article, the assumptions necessary for parametric tests are rendered moot.

97. *Id.* at 693.

> Most . . . statistical tests . . . have specified certain properties of the parent population which must hold before these tests can be used. . . . Although most of these tests are quite "robust," in the sense that the tests are still useful when the assumptions about the parent population are not exactly fulfilled, there are still many circumstances when the researcher cannot or does not want [to] make such assumptions. The statistical methods appropriate in these circumstances are called nonparametric tests because they do not depend on any assumptions about the parameters of the parent population.

Id.

98. The expected number of granted and denied preliminary injunctions was found by multiplying the fraction of injunctions granted in the earlier period by the number of injunctions that were decided upon in the later period. For example, the number of preliminary injunctions considered from January 1953 to September 1982 included twenty-eight that were granted and fifty that were denied. This is a total of seventy-eight preliminary injunctions. The fraction of injunctions granted is twenty-eight divided by seventy-eight or 0.36. The number of injunctions granted from October 1982 to October 1988 was thirty, and the number denied was twenty-eight, for a total of fifty-eight preliminary injunctions sought.

The expected number of granted and denied injunctions was calculated as:

$$\text{granted} = (0.36) \times (58) = 21$$
$$\text{denied} = 58 - 21 = 37$$

99. HARNETT, *supra* note 97, at 708. This author stated:

> The chi-square variable is used . . . to test how closely a set of observed frequencies corresponds to a given set of expected frequencies. The expected frequencies can be thought of as the average number of values expected to fall in each category, based on some theoretical probability distribution. . . . The observed frequencies can be thought of as a sample of values from some probability distribution. The chi-square variable can be used to test whether the observed and expected frequencies are close enough so we can conclude they came from the same probability distribution.

Id.

B. The Data for Comparison[100]

The data from the past used to calculate the expected number of preliminary injunctions is found in an article written by Dorr and Duft.[101] Dorr and Duft surveyed cases reported in the United States Patent Quarterly from January 1953 to September 1978. Their survey did not include non-published decisions. Dorr and Duft found that:

> First, contrary to the popular belief that preliminary injunctions are infrequently granted, of those applied for, *over* 41% *were granted* by the federal district courts. The choice of *forum* in which to seek preliminary relief can be crucial - only 8% of the motions for preliminary injunction were granted (and upheld upon appeal) in the Second Circuit, whereas 86% were granted (and upheld upon appeal) by the Fifth Circuit. . . . Notably, the two most common reasons for denying preliminary relief were that the movant did not prove the patent to be probably *valid* and did not demonstrate sufficient *irreparable harm*.[102]

A data set has been compiled with the Dorr and Duft data plus data from October 1, 1978 to October 1, 1982. October 1, 1982 is the effective date of the creation of the CAFC.[103] This "supplemented Dorr and Duft data" will allow for comparisons of the pre-CAFC data (January 1953 through October 1982) to the post-CAFC data (including decisions from October 1, 1982 through October 1, 1988),[104] for all cases that were subject to appellate review, for all decisions as they issued

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100. Listings of appellate decisions involving preliminary injunctive relief in patent infringement cases that were decided by the CAFC from October 1982 to October 1988, appellate decisions involving preliminary injunctive relief in patent infringement cases that were decided from September 1978 to October 1982, district court decisions involving preliminary injuctive relief in patent infringement cases that were decided since the creation of the CAFC, and district court decisions involving preliminary injunctive relief in patent infringement cases that were decided from September 1978 to October 1982 are available upon request from the Indiana Law Review. Also available are detailed listings of the chi-squared calculations performed herein.

101. Dorr & Duft, *supra* note 91.

102. *Id.* at 599 (emphasis in original).

103. The supplemented Dorr and Duft data contains all of the preliminary injunction data from the Dorr and Duft article (from January 1953 to September 1978) along with the pre-CAFC data from October 1978 to October 1982. The supplemented Dorr and Duft data set is the data set with preliminary injunction information that spans January 1953 to October 1982.

104. This data was collected through several computerized searches on both LEXIS and WESTLAW, with a follow-up of cases found for new cases that were not discovered as part of the computer searches. This same procedure was used to find cases cited in periodical articles. The search seems to have been thorough, but there doubtless are cases that were missed.

from the district courts, and for an accumulation of all final decisions.

C. Results of the Chi-Square Analysis

The first comparison will determine whether preliminary injunctions against infringement have been easier to attain since the creation of the CAFC than they were in the preceding twenty-nine years for cases that were subject to appellate review. The pre-CAFC data shows that eight out of nineteen, or 42%, of the patent preliminary injunction decisions that were appealed and heard outside of the CAFC were granted and survived appellate review. Since the CAFC's creation, eight of fourteen, or 57%, of the patent preliminary injunctions that were appealed through the CAFC were granted and survived appellate review.

Results from a chi-square analysis show that this difference is statistically significant at the 0.44 level. In other words, there is a 44% probability that this difference is due to the expected random variation in the data. Since researchers in the social sciences are traditionally willing to claim that a significant difference exists only when there is a probability of 5% or less that the difference is due to random fluctuations in the data, the conclusion cannot be drawn that there has been a significant change in the number of preliminary injunctions granted against patent infringement at the appellate level since the effective date of the CAFC. There is a 44% probability that the noted increase is merely the result of expected random variation of the data.

Before the creation of the CAFC the district courts were granting preliminary injunctions at a 42% rate. This increased to 53% after the creation of the CAFC. This change is significant only at the 0.071 level and is not a significant difference using the traditional 5% or less criteria.

The overall success rate of preliminary injunctions is the number of successful motions in the district courts that are not appealed plus the number of successful motions that are granted and upheld on appeal or denied and reversed on appeal. These are the final adjudications of all motions seeking preliminary injunctions against patent infringement.

From 1953 to 1982, before the creation of the CAFC, the overall success rate of preliminary injunctions against patent infringement was 36%, after the creation of the CAFC it rose to 52%. This yields a probability of 1.5% that the difference is due to random chance, or a probability of 98.5% that there was a true change in the availability of preliminary injunctions between the two periods, a difference that is statistically significant.

Preliminary injunctions against infringement have been more available since the creation of the CAFC than they were in the preceding twenty-nine years. The significant difference in the availability of preliminary injunctions against infringement since the creation of the CAFC suggests

that the creation of the CAFC is the assignable cause of the increase in the availability of preliminary injunctions.

Dorr and Duft concluded that with a success rate of 41% of all motions for preliminary injunctions granted at the district court level and a success rate of 32% when combined with all decisions at the appellate level, preliminary injunctions were more than just "rarely granted" in patent infringement cases.[105] Since the creation of the CAFC, with a success rate of 53% at the district court level and a success rate of 52% when combined with all decisions at the appellate level, it can be concluded that preliminary injunctions against patent infringement are readily available and that their availability has increased since the creation of the CAFC.

D. District Court Uniformity

The chi-square analysis can also be used to determine whether the creation of the CAFC improved the uniformity of decisions from the district courts, here grouped by circuit. According to the supplemented Dorr and Duft data, the district courts within three circuits granted preliminary injunctions in patent infringement cases at a rate that was significantly different from the combined rate of 42% in seventy-eight decisions produced by all of the district courts. District courts in the Second Circuit granted only 16% of the thirty-two motions they ruled upon, district courts in the Fifth Circuit granted 87% of the eight motions they ruled upon, and the district courts in the Ninth Circuit granted 78% of the nine motions they ruled upon.[106]

An overall chi-square value comparing district courts in all circuits yields a probability of 0.006, or 0.6%, that the variations between the district courts were due to random changes in the data. This means that there is a 99.4% chance that the inconsistencies between the success rates of motions for preliminary relief against infringement between district courts in each circuit from 1958 until the creation of the CAFC were not due to random chance but to some difference in criteria between

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105. Dorr & Duft, *supra* note 91, at 601.

106. Prior to the creation of the CAFC, comparing the Second Circuit's district courts' rates of granting preliminary injunctions in patent infringement actions to the rate that all district courts granted preliminary injunctions in patent infringement actions, the difference between the two is significant at less than the 0.005 level—in other words there is a probability of less than 0.5% that the difference between the Second Circuit's district courts and all district courts is due to random fluctuation in the data and a greater than 99.5% chance that the difference reflected a true difference in the way that the district courts sitting in the Second Circuit dispositioned these motions. The same is true for the district courts sitting in the Fifth Circuit and the Ninth Circuit.

the circuits. This was believed to be true,[107] and the statistical test confirms that a uniformity problem existed.

Since the creation of the CAFC, none of the groups of district courts have behaved significantly differently than the combined performance of the district courts. The overall chi-square value for the district courts since the creation of the CAFC yields a probability of 44% that the variations between the district courts, grouped by circuits, are due merely to random variations.

Dorr and Duft concluded that a patentee should consider the forum the most important consideration when deciding whether to seek a preliminary injunction in a patent infringement case.[108] Since the creation of the CAFC, the forum has become an unimportant consideration.

V. Analysis of Opinions from the CAFC

Dorr and Duft found that appellate courts reversed over half of the preliminary injunctions that were granted by the district courts. They concluded that it was advantageous for losing defendants to appeal their decisions.[109]

Seventeen decisions have been appealed to the CAFC, twelve were affirmed and five were vacated. Of these seventeen, eight were denied in the district courts (five were affirmed, one was reversed, and two were remanded), and nine were granted in the district courts (seven were affirmed and two were vacated). It is no longer as advantageous for either losing party to appeal.

A. Preliminary Injunctions that Were Remanded by the CAFC

Three cases were returned by the CAFC to the district courts with no determination on the motion for preliminary relief.[110] There is little to be learned from these cases. In *Roche Products, Inc. v. Bolar Pharmaceutical Co.*,[111] the patent expired after the briefs were filed but before oral arguments, rendering the need for a preliminary injunction against

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107. Sward & Page, *The Federal Courts Improvement Act: A Practitioner's Perspective*, 33 Am. U. L. Rev. 385, 387 (1984). The lack of uniformity in patent law has long been recognized as a serious problem in American jurisprudence.

108. Dorr & Duft, *supra* note 91, at 602. Dorr & Duft concluded: "Although we operate under a system of government which sought to eliminate 'Balkanism,' we can certainly say . . . that such a state now reigns among the circuits, at least regarding the allowance or denial of preliminary patent requests." *Id.* at 629.

109. *Id.* at 602.

110. Pretty Punch Shopettes, Inc. v. Hauk, 844 F.2d 782 (Fed. Cir. 1988); Chemlawn Serv. Corp. v. GNC Pumps, Inc., 823 F.2d 515 (Fed. Cir. 1987); Roche Prod., Inc. v. Bolar Pharm. Co., 733 F.2d 858 (Fed. Cir. 1984).

111. 733 F.2d 858 (Fed. Cir. 1984).

infringement moot.[112] The other two cases were remanded because the district courts failed to enter findings of fact and conclusions of law with the preliminary injunctions[113] as required by Rule 52 of the Federal Rules of Civil Procedure.

B. Preliminary Injunctions that Were Reversed by the CAFC

Two cases were reversed by the CAFC. In *Digital Equipment Corp. v. Emulex Corp.*,[114] the CAFC vacated a preliminary injunction because the district court failed to hold a hearing prior to granting the injunction as required by Rule 65 of the Federal Rules of Civil Procedure.

In *Smith International, Inc. v. Hughes Tool Co.*,[115] the district court denied a preliminary injunction against infringement. After appeal the CAFC remanded the case with instructions to issue a preliminary injunction.[116] Smith, the alleged infringer, brought this action seeking a declaratory judgment that would declare Hughes' patents to be invalid. Hughes counterclaimed, alleging Smith's infringement of the patents and seeking damages. Smith asserted in its answer to the counterclaim that it manufactured and sold products that were described by the patent, and it claimed the invalidity of the patent as its defense.[117]

After trial the district court concluded that the patents were invalid, and Hughes' counterclaim was dismissed. Hughes appealed to the Court of Appeals for the Ninth Circuit.[118] The Ninth Circuit reversed, finding that all of the patents were valid.[119] The case was remanded for further proceedings on the counterclaim. Hughes sought a preliminary injunction against infringement, but the court chose not to grant the motion until the nature and scope of Smith's infringement could be determined.[120] Hughes appealed to the CAFC, and the motion was granted.

In *Smith*, the trial court erred by seeking information about the extent of Smith's infringement before granting the injunction instead of granting the injunction based on the fact of Smith's infringement as contained in the admission.[121]

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112. *Id.* at 865.
113. *Pretty Punch*, 844 F.2d at 784; *Chemlawn*, 823 F.2d at 517.
114. 805 F.2d 380 (Fed. Cir. 1986).
115. 718 F.2d 1573 (Fed. Cir.), *cert. denied* 464 U.S. 996 (1983).
116. *Id.* at 1582.
117. *Id.* at 1575.
118. 664 F.2d 1573 (9th Cir. 1982).
119. *Id.* at 1577.
120. *Id.*
121. *Id.* at 1580.

C. Preliminary Injunctions that Were Affirmed by the CAFC

The CAFC affirmed twelve of the seventeen cases that came before it on appeal of motions for preliminary injunctions. The district courts had denied five of these preliminary injunctions and had granted seven.

1. Injunctions Denied in the District Courts and Affirmed by the CAFC.—Three of the injunctions were denied because the movants failed to make sufficient showings of irreparable harm.[122] Instead of making a separate showing of irreparable harm, each movant relied on the presumption of harm that arises from a clear showing of the likelihood of success on the merits.

In each case, the court found weaknesses in the showings of the likelihood of success. Instead of explaining the weaknesses, the court merely noted that the movants failed to make a showing of irreparable harm, and it concluded that even assuming that the movants showed validity and infringement, the showings were not strong and clear enough to raise the presumption of irreparable harm. Since the movants did not make a separate showing of irreparable harm, and since the presumption failed, their cases failed.[123]

The court stated that for the likelihood of success to raise the presumption of irreparable harm "it must be not merely a reasonable but a strong showing indeed."[124] The lesson from these cases is that a movant should make a showing of irreparable harm regardless of the strength of its case on the merits.

The injunction sought in *Roper Corp. v. Litton Systems, Inc.*[125] was denied because Litton no longer manufactured the infringing "common cavity" oven and it had no plans to resume production; Roper was not manufacturing the oven and it had no plans to start. The court found that Roper made no showing of an immediate threat of renewed infringement. It also found that the *status quo* would be maintained without a preliminary injunction.[126]

2. Injunctions Granted in the District Courts and Affirmed by the CAFC.—The seven cases in which granted injunctions were affirmed provide the most insight into the expectations of the court. Three of these injunctions were affirmed with no published opinion.[127]

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122. T. J. Smith and Nephew, Ltd. v. Consolidated Medical Equip., Inc., 821 F.2d 646 (Fed. Cir. 1987); Datascope Corp. v. Kontron, Inc. 786 F.2d 398 (Fed. Cir. 1986); Roper Corp. v. Litton Sys., Inc. 757 F.2d 1266 (Fed. Cir. 1985).

123. *Nephew*, 821 F.2d at 647-48; *Datascope*, 786 F.2d at 400; *Roper*, 757 F.2d at 1271-73.

124. *Roper*, 757 F.2d at 1271.

125. 757 F.2d 1266 (Fed. Cir. 1985).

126. *Id.* at 1273.

127. Amicus, Inc. v. American Cable Co., 848 F.2d 1245 (Fed. Cir. 1988); American

a. Likelihood of success on the merits.

The four published opinions involved patents that had been the subject of prior litigation which determined that the patents were valid. The CAFC stated that a prior adjudication with similar issues, upholding a patent after a fully litigated trial, offers strong support for issuing a preliminary injunction. There is no *res judicata* problem because the prior adjudication is merely evidence that supports the likelihood of success on the merits.[128]

The court instructed that patent claim construction is reviewed as a matter of law, though the interpretation may depend on issues of fact. Since the district court must resolve the disputes required to make a decision on the motion, the CAFC will review those findings with the clearly erroneous standard.[129]

In *H.H. Robertson Co. v. United Steel Deck, Inc.*,[130] the patent was for a bottomless subassembly for producing an under-floor electrical cable trench. After several experts testified for each side, the district court determined the "key portion of the trench remain[ed] bottomless, *i.e.*, the portions giving direct access to the cells."[131] Defendant argued that its trenches were not truly bottomless and that the claims in the patent should be interpreted to exclude trenches that are only partially bottomless. Finding that the district court was not clearly in error, the CAFC noted that a preliminary injunction may issue even though infringement is not proven beyond all question and even though there is evidence supporting the accused infringer. "The grant turns on the likelihood that [the movant] will meet its burden at the trial."[132]

b. Irreparable harm to the movant.

The CAFC clearly settled an intra-circuit conflict surrounding the irreparable harm element in *Atlas Powder Co. v. Ireco Chemicals*.[133] The accused infringer argued that all of Atlas' possible damages were compensable with money, and for this reason there was no irreparable harm that required the granting of a preliminary injunction. The court

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Parking Meter Advertising Corp. v. Visual Media, Inc., 848 F.2d 1244 (Fed. Cir. 1988); Colt Indus. Operating Corp. v. Springfield Armory, Inc., 732 F.2d 168 (Fed. Cir. 1984).

128. H.H. Robertson Co. v. United Steel Deck, Inc., 820 F.2d 384, 388 (Fed. Cir. 1987). *See also* Atlas Powder Co. v. Ireco Chem., 773 F.2d 1230, 1232 (Fed. Cir. 1985).

129. *H.H. Robertson Co.*, 820 F.2d at 388.

130. 820 F.2d 384 (Fed. Cir. 1987).

131. *Id.* at 389 (quoting the district court's slip opinion, H.H. Robertson Co. v. United States Steel Deck, Inc., No. 84-533F (D.N.J. 1986)).

132. *Id.* at 389-90.

133. 773 F.2d 1230 (Fed. Cir. 1985).

responded that "[i]f monetary relief were the sole relief afforded by the patent statute then injunctions would be unnecessary and infringers could become compulsory licensees for as long as the litigation lasts."[134]

The court illuminated its requirements for a finding of irreparable harm in *Hybritech, Inc. v. Abbot Laboratories*[135] by providing a list of factors it considered while arriving at its decision. It considered that: the movant made a strong showing of validity and infringement, the technological field covered by the patent was new, there was substantial competition in this field, the accused was a strong competitor in the field, technology was changing quickly in this field, a great deal of research was performed in this field, the patent could help to favorably position the plaintiff in the market, there was a strong possibility that by the time the litigation was complete technology would bypass the patent causing it to lose value, the potential injury to the plaintiff was unpredictable, and in the absence of an injunction other potential infringers would be encouraged to infringe.[136]

Although a movant's delay in seeking preliminary relief often undercuts its claims of irreparable injury, the court in *Hybritech* stated that a delay in seeking relief against one accused infringer while seeking relief against another infringer was excusable, especially in light of Hybritech's limited financial resources.[137]

c. The balance of harms.

The court has stated that the balancing of harms must be considered even when a clear showing of validity and infringement raises a presumption of irreparable harm, and even when the accused infringer does not attempt to rebut the presumption. This is necessary because "a preliminary injunction improvidently granted may impart undeserved value to an unworthy patent."[138] The court has also stated, though, that the "protection of patents furthers a strong public policy . . . advanced by granting preliminary injunctive relief when it appears that, absent such relief, patent rights will be flagrantly violated."[139]

In *Hybritech* the court decided that neither party had a distinct advantage in this balance, but that the balance was merely one of four factors to consider and was not a prerequisite to gaining a preliminary

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134. *Id.* at 1233.

135. 849 F.2d 1446 (Fed. Cir. 1988).

136. *Id.* at 1456.

137. *Id.* at 1457-58.

138. H. H. Robertson Co. v. United Steel Deck, Inc., 820 F.2d 384, 391 (Fed. Cir. 1987).

139. *Id.* (quoting the district court's slip opinion from the preliminary injunction hearing).

injunction.[140] In *Robertson* the court weighed the disruption of defendant's business, the loss of business for defendant, and the loss of jobs for defendant's workers against plaintiff's business needs and patent rights. The court found that plaintiff's business needs and patent rights were more important.[141]

In *Atlas Powder Co. v. Ireco Chemicals*[142] the defendant argued that the balance of harms was in its favor because of the irreparable injury that it and the mining industry would suffer if the court granted the injunction. Ireco claimed that the allegedly infringing product produced 66% of its sales, and that if the injunction was granted it would be forced to lay off 200 people. Ireco further argued that the plaintiff's harm if the injunction was not granted was lessened by the fact that the patent would expire in less than one year. The court responded that patent rights do not "peter out" toward the expiration date and that the plaintiff's business needs and the injury to plaintiff's patent rights outweighed the injury to Ireco.[143]

There has not yet been a patent preliminary injunction case through the CAFC in which the balance of harms was sufficiently in favor of the accused infringer to block a preliminary injunction.

d. The public interest.

The public interest was important in *Hybritech.* The patent involved a technique for detecting certain medical conditions, such as pregnancy, cancer, growth hormone deficiency, or hepatitis. The accused infringer, Abbot, developed test kits that employed the technique described in Hybritech's patent.[144] Abbot argued that the medical community relied on its ability to supply the kits, that it would be a waste of the public's resources to force Abbot's customers to switch vendors, and that supply shortages might result as indicated by Hybritech's past delivery problems.[145] The court decided that the public interest was best served by the continued availability of the cancer test kit and the hepatitis test kit, and these were excused from the injunction.[146]

The court's easing of the showing required for success on the merits from "beyond question" to "clear showing," its creation of a presumption of irreparable harm when there is a strong probability of

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140. *Hybritech*, 849 F.2d at 1458.
141. *Robertson*, 820 F.2d at 391.
142. 773 F.2d 1230 (Fed. Cir. 1985).
143. *Id.* at 1234.
144. *Hybritech*, 849 F.2d at 1448.
145. *Id.* at 1458.
146. *Id.*

success on the merits, and its consistent tipping of the scales toward patentee's business needs and patent rights while balancing prospective harms to the parties may account for the increase in the number of preliminary injunctions granted since the creation of the CAFC. There is evidence that this strengthening of the patent system is not having the anticipated effects of reindustrializing America through innovation and through increased research spending for advances in technology.

VI. Strengthening the Patent System — A Myopic Approach to Economic Improvement

It has been advanced that having a strong patent system with sure and consistent treatment of the laws will improve the nation's economic competitiveness by encouraging technological advancement.[147] But in 1988, six years after the CAFC's creation, the rate of increase in corporate research and development spending is slowing. One writer believes that the slow-down is the result of the "frenzied pace of corporate change in the U.S. through acquisitions and restructurings."[148]

> Most of the recent rash of restructuring deals have sharply increased debt servicing costs of the corporations involved and this has led to a curtailing of outlays in areas such as research and development. Because R & D has higher risks and longer-term payoffs than most expenditures, it's a highly postponable spending item - a handy target for cost cutters.[149]

These authors cited the prospectus of Duracell Inc., which was recently acquired in a leveraged buy-out, as an example of the problem. Duracell is in a field where technological competence is a key to survival, and Duracell has had to rely on its R & D to endure. "But the prospectus issued in the buy-out observes that the heavy debt-servicing obligations incurred in the acquisition could hurt the company's 'ability to respond adequately to technological developments.'"[150]

While increasing the strength of the patent law by increasing the availability of provisional remedies, it is important to avoid the tunnel vision that the Hruska commission feared.[151] It is necessary to maintain

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147. *Court of Appeals for the Federal Circuit, 1981: Hearings on H.R. 2405 Before the Subcomm. on Courts, Civil Liberties, and the Administration of Justice of the House Comm. on the Judiciary*, 97th Cong., 1st Sess. 6 (1981) (statement of Howard T. Markey, Chief Judge of the Court of Customs and Patent Appeals).

148. Clark and Malabre, *Eroding R & D: Slow Rise in Outlays for Research Imperils U.S. Competitive Edge*, Wall St. J., Nov. 16, 1988, at A1, col. 6.

149. *Id.*

150. *Id.* at A8, col. 1.

151. *Hruska Report*, *supra* note 76, at 235.

an awareness of economic interactions beyond the simplistic models espoused by courts. The strengthening of the patent system has not increased research spending. The economy is more complicated than this. Growth in research spending has slowed in recent years despite the strengthening of patent enforcement, despite the increased availability of preliminary injunctions against patent infringement, and despite the consistency of the patent decisions of the district courts.

The strengthening of the patent system has restrained competition. As the patent system grows stronger, the equilibrium between it and antitrust law shifts. Under the present treatment of preliminary injunctions against infringement, it would be folly for a corporation to invest in technology that is patented by another, even if it believes in good faith that the patent is invalid.

The presently increased possibility of the grant of a preliminary injunction, prior to a litigated determination on the issues of validity and infringement, greatly increases the risk imposed on any business considering the development of a technology confined by a patent that the business believes to be invalid. This greater risk provides a strong incentive against the development of any technology colorably protected by a patent.

The Supreme Court stated that "[i]t is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly . . . . "[152] The potential impact on a firm of the grant of "the extraordinary remedy of preliminary injunctive relief"[153] must play a key role in the determination of the motion. Otherwise, the intolerable level of risk generated will prevent firms from developing technologies that are colorably protected by patents, ultimately to the detriment of the public.

VII. Conclusion

The availability of preliminary injunctive relief against patent infringement has increased since the creation of the Court of Appeals for the Federal Circuit. Prior to the existence of this court, 36% of the motions for preliminary injunction against infringement were granted. Since the creation of the CAFC, 52% of the injunctions sought have been granted. This difference is statistically significant, suggesting that

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152. Lear, Inc. v. Adkinson, 395 U.S. 653, 663-64 (1969) (quoting Pope Mfg. Co. v. Gormully, 144 U.S. 224, 234 (1892)).

153. Pride v. Community School Board, 488 F.2d 321, 324 (2d Cir. 1973). *See also* Meeham v. PPG Indus., 802 F.2d 881, 883 (7th Cir. 1986) ("Even this limited monopoly right has extensive social and economic consequences for the public . . . . ").

there has been a conscious shift in favor of patent holders in the philosophy of the courts when faced with motions for preliminary injunctions against patent infringement.

Chief Judge Markey, while testifying in favor of the Federal Courts Improvement Act, stated that a strong patent system was needed "to encourage the investment in innovative products and new technology. . . ."[154] However, this expectation has not been realized. In 1988, six years after the creation of the CAFC, and at a time when preliminary injunctions are granted at a rate that is 44% higher than before the creation of the CAFC, the growth rate of research and development spending is falling.[155] It may be that the system's present bias discourages investors from pursuing technologies in which another owns the patent, regardless of the investor's determination of the validity of the patent.

When changing the rules in the nation's economy, and the increased availability of patent preliminary injunctions is a dramatic example of a rule that has changed, clear and thorough consideration of the costs and benefits, and their constant re-evaluation, is a responsibility that cannot be ignored.

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154. *Court of Appeals for the Federal Circuit, 1981: Hearings on H.R. 2405 Before the Subcomm. on Courts, Civil Liberties, and the Administration of Justice of the House Comm. on the Judiciary*, 97th Cong., 1st Sess. 6 (1981) (statement of Howard T. Markey, Chief Judge of the Court of Customs and Patent Appeals).

155. Clark and Malabre, *supra* note 148, at A1, col. 6.